

# TO EXCITE AND TO ENTERTAIN

## ABOUT RANK

We operate three established retail gaming brands: Mecca, Grosvenor Casinos and Enracha.

Rank's retail businesses operate through 151 venues in Great Britain, Spain and Belgium.

Rank also operates complementary digital offers through its UK and Alderney gambling licences.

In the markets where we operate, Rank is one of the few gaming companies able to offer customers a genuine multi-channel gaming proposition.

## CONTENTS

<b>Strategic report</b>	
2017 highlights	2
Group brands at a glance	4
Chairman's letter	6
Business model	8
Business model in action	10
Chief executive's Q&A	18
Market review	21
Our strategy and KPIs	24
Operating responsibly	26
Operating review	32
Financial review	37
Risk management	40
Principal risks and uncertainties	42
Tax fact file	45
<b>Governance</b>	
Board of directors	50
Corporate governance	52
Directors' remuneration report	70
Directors' report	85
Directors' responsibilities	88
<b>Financial statements</b>	
Independent auditor's report	90
Group income statement	98
Group statement of comprehensive income	99
Balance sheets	100
Statements of changes in equity	101
Statements of cash flow	102
Notes to the financial statements	103
<b>Unaudited appendix to financial statements</b>	
Five-year review	145
<b>Other information</b>	
Shareholder information	146
Glossary	148

## OUR PURPOSE

*To excite and to entertain.*

*We bring excitement and entertainment to the customers and communities we serve.*

## OUR AMBITION

*To be the UK's leading multi-channel gaming operator, creating value for our shareholders, having strong brands which will meet customers' needs and delivering operational excellence in venues and digital channels.*

*Visit [rank.com](https://rank.com) to find out more about our business.*

# WE EXCITE AND ENTERTAIN THROUGH

## CUSTOMER RELATIONSHIPS

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## TECHNOLOGY

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## INNOVATION

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## VENUES

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*p16*

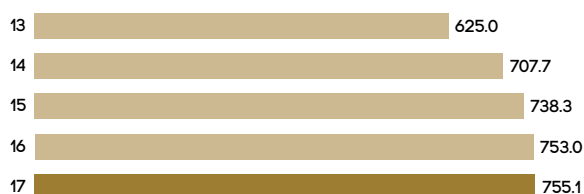
## 2017 HIGHLIGHTS

# GROUP KPIs

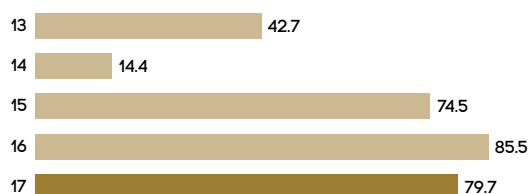
The charts illustrate the Group's performance for the 12-month periods to 30 June over the last five years.

REVENUE<sup>1,8</sup>

## £755.1M

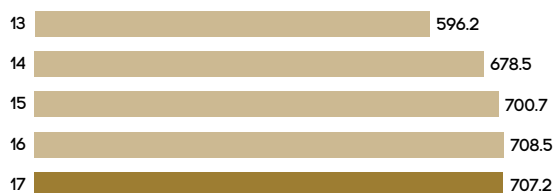
PROFIT BEFORE TAX AFTER EXCEPTIONALS<sup>8</sup>

## £79.7M



## STATUTORY REVENUE

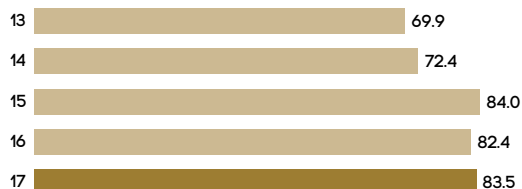
## £707.2M

EBITDA<sup>3,8</sup>

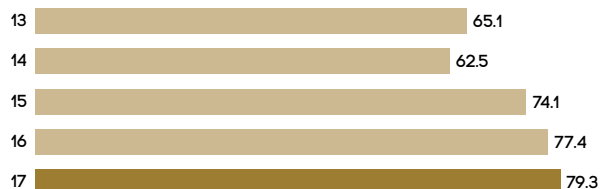
## £128.8M

OPERATING PROFIT<sup>2,8</sup>

## £83.5M

ADJUSTED PROFIT BEFORE TAX<sup>4,8</sup>

## £79.3M



1 Before adjustments for customer incentives.

2 Before exceptionals.

3 Group EBITDA is Group operating profit before exceptional items, depreciation and amortisation. EBITDA is reconciled in note 19.

4 Adjusted profit before taxation is calculated by adjusting profit from continuing operations before taxation to exclude exceptional items, the unwinding of the discount on disposal provisions and other financial gains and losses resulting from foreign exchange gains and losses on loans and borrowings. See financial review for reconciliation.





#### More information

Operating review	32
Financial review	37

#### ADJUSTED EARNINGS PER SHARE<sup>5,8</sup>

16.0P



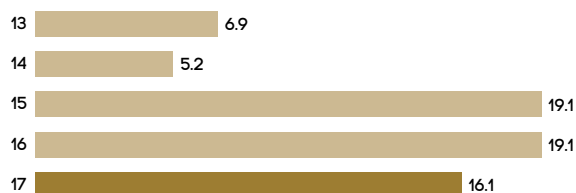
#### NET DEBT<sup>8</sup>

(12.4)M



#### EARNINGS PER SHARE

16.1P



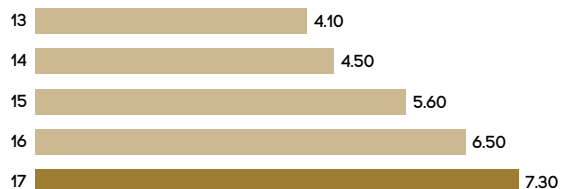
#### CUSTOMERS<sup>6,7,8</sup>

2,824K



#### DIVIDEND PER SHARE

7.30P



5 Adjusted earnings per share is calculated by adjusting profit attributable to equity shareholders to exclude discontinued operations, exceptional items, other financial gains or losses, the unwinding of the discount on disposal provisions and the related tax effects, as per note 9.

6 Unaudited.

7 Following the introduction of 'full' and 'partial' open door policies in Grosvenor Casinos' venues, the total Group customer numbers only include registered venues' customer numbers for Grosvenor Casinos.

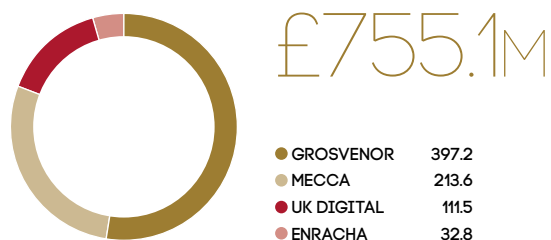
8 Alternative performance measure.

Our results refer to 'adjusted' results alongside our statutory results, which we believe will be more useful to readers since we manage our business using adjusted measures. The directors believe that exceptional items and adjustments impair visibility of the underlying performance of the Group's businesses and, accordingly, these are excluded from our non-GAAP measures of revenue, profit before tax, EBITDA, operating profit and adjusted earnings per share, which we use in internal reports.

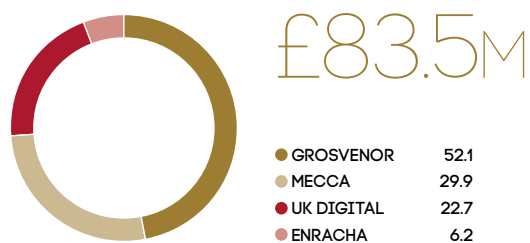
## GROUP BRANDS AT A GLANCE

# DELIVERING THROUGH OUR BRANDS

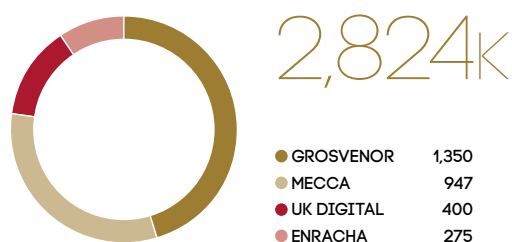
### CONTRIBUTION TO GROUP REVENUE<sup>1</sup>



### OPERATING PROFIT<sup>2</sup>



### CUSTOMER NUMBERS<sup>3,4</sup>



#### More information

Operating review – Grosvenor Casinos	32
Operating review – Mecca	34
Operating review – Luda	34
Operating review – UK Digital	35

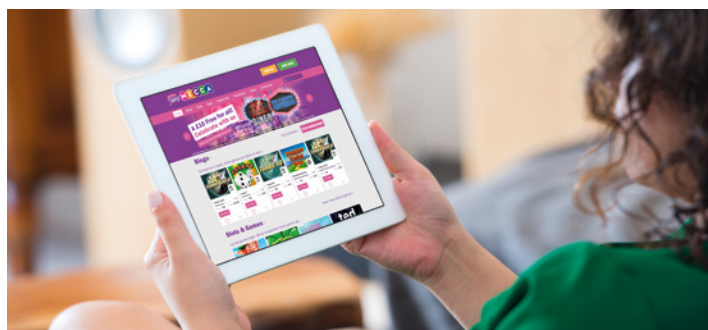
<sup>1</sup> Before customer incentives.

<sup>2</sup> Before exceptional items.

<sup>3</sup> Unaudited.

<sup>4</sup> Excluding customer cross over of 148k.

### Our brands



## Overview



The UK's largest multi-channel casino operator. The brand offers a range of popular casino table games, including roulette, blackjack, baccarat and poker as well as electronic roulette and slot machine games. The brand's digital channel offers many popular games, including its very popular live casino, in addition to the recently launched sports betting offer.

### Venues

Largest operator (by venue) in Great Britain; 54 licensed casinos in Great Britain and two in Belgium.

### Digital

High-growth business which continues to gain scale.



Rank's multi-channel community-based gaming brand for the British market. The brand's digital channel offers a selection of games from bingo to a wide range of slot games. The venues also offer great-value food, drink and live entertainment.

### Venues

Second largest operator (by venue) in Great Britain; 85 licensed bingo venues.

### Digital

One of the leading online bingo operators in the UK.



Luda is a new concept community-based gaming brand, like Mecca; however it is offered in a more accessible and contemporary environment. The first Luda venue was opened on 7 August 2017 in Walsall and two further venues are due to open in Leeds and Weston-super-Mare later in the year.

### Venues

One licensed venue.

### Digital

A digital version of Luda will be launched in 2017/18.



Rank's community-based gaming business for the Spanish market. The brand offers a range of popular community games like bingo as well as electronic roulette and slot machine games, sports betting and food, drink and live entertainment.

### Venues

Fourth largest bingo operator in Spain; nine licensed bingo venues.

### Digital

Enracha's digital offer will be fully launched in 2017/18.

# DELIVERING LONG-TERM SUSTAINABLE GROWTH



## Dear shareholder

Rank's aim is to be the UK's leading multi-channel operator. The Group looks to meet this goal through delivering against its five strategic pillars:

1. create a compelling multi-channel offer;
2. build digital capability;
3. develop our venues;
4. invest in our brands and marketing; and
5. use technology to drive efficiency and improve customer experience.

Further detail of the Group's progress against these pillars can be found in the strategy and KPIs and operating review sections of this report.

## Financial performance

Following what has been a challenging year for our retail businesses, the Group delivered revenue<sup>1</sup> marginally up on the prior year. However, a strong digital performance and improved cost discipline across the Group contributed to a 1% increase in operating profit<sup>2</sup>.

The Group's UK digital business had a strong year, again delivering impressive revenue<sup>1</sup> growth, up 15%. The Group's UK retail businesses had a tough year, with declines in visits adversely impacting revenue, and ended the year 3%<sup>3</sup> down on the prior year.

As highlighted in our recent interim results, the Group faced increased costs during the year following the introduction of the National Living Wage and increased property rent costs. The combination of these cost increases and challenging UK retail conditions resulted in the Group undertaking a detailed review of its UK organisational structure and cost base. This identified a number of actions that were taken to mitigate cost inflation and improve efficiency, with the Group finishing the year with total costs marginally lower than the prior year. 2017/18 will see some benefit from the actions taken during the second half of 2016/17 and further details can be found in the financial review.

Our Spanish operations delivered a strong performance with euro revenue<sup>1</sup> up 7% and euro operating profit<sup>2</sup> up 53%.

<sup>1</sup> Before adjustments for customer incentives.

<sup>2</sup> Before exceptional items.

<sup>3</sup> Combined revenue, before exceptional items, for Mecca and Grosvenor Casinos venues businesses.

### Responsible gambling

As an operator, Rank is committed to minimising the potential for harm from gambling. This year we made significant steps to increase the scale and impact of our response regarding the prevention and detection of problem gambling through:

- ♦ a newly formed board responsible gambling committee (see page 68 for more details);
- ♦ the development of propensity models to detect patterns of play symptomatic of problem gambling;
- ♦ investment in resourcing a team solely focused on responsible gambling; and
- ♦ the development of our new Customer Solutions Hub in Sheffield to better support our customers.

More detail of our responsible gambling strategy can be found in the operating responsibly section of this report.

### Management team changes

In September 2016, Alan Morgan joined Rank as managing director of Mecca's retail business. Alan has held several senior positions within the hospitality and leisure sector. Alan's last role was chief operating and commercial officer for Spirit Pub Company until it was sold to Greene King plc.

On Alan's appointment, Martin Pugh became managing director of Grosvenor Casinos' retail business after 21 months as managing director of Mecca.

On 30 June 2017, the Group's human resources director, Sue Waldoock, retired after 28 years with the Group. Following Sue's retirement, David Balls was appointed to succeed her. David was previously Grosvenor's human resources director, and will continue to hold this position alongside his Group role.

### Board changes

I am pleased to welcome Alex Thursby to the board as a non-executive director. Alex's appointment was effective from 1 August 2017, when he also joined Rank's audit, remuneration and nominations committees. Alex will also chair Rank's audit committee following the conclusion of the annual general meeting on 19 October 2017.

I look forward to working with Alex and to benefiting from his experience of developing new, and transforming existing, businesses with the use of technology platforms. Alex's extensive experience in compliance and risk governance in a highly-regulated sector will also further strengthen the board.

Owen O'Donnell, currently chair of the audit committee, notified the board of his intention not to seek re-election at the 2017 annual general meeting and will therefore step down later this year having completed nine years on the board. I would like to thank Owen for his valuable contribution as a director during his tenure and his excellent chairmanship of the audit committee over the last three years.

**"Rank remains in a strong financial position, possesses market-leading brands and has a clear strategy for long-term growth."**

### Dividend

The board targets a progressive and sustainable dividend. The dividend policy reflects the strong cash flow characteristics and long-term earnings potential of the Group, whilst allowing it to retain sufficient capital to fund ongoing operating requirements, investment and balance sheet management.

The board is pleased to recommend a final dividend of 5.3 pence per share to be paid on 31 October 2017 to shareholders on the register at 22 September 2017. This will take the full-year dividend to 7.3 pence per share, a 12% increase on last year. The Group's dividend cover has thus reduced to 2.2 times from 2.4 times in the prior year.

### Culture

During the year, the Group rolled out its group-wide values, STARS, following their launch in July 2016. The values of Service, Teamwork, Ambition, Responsibility and Solutions reflect the behaviours vital for Rank employees to deliver successfully against Rank's strategic goals.

We understand the important role the right culture plays in the gaming industry and in addressing our responsibilities to our customers and wider society. Work continues to bring STARS to life for all of Rank's employees.

I would like to take the opportunity, on behalf of the board, to thank Rank's employees for their continued passion and dedication in exciting and entertaining our customers.

### Current trading and outlook

Trading in the short seven-week period to 13 August 2017 has been encouraging and in line with management's expectations.

Rank remains in a strong financial position, possesses market-leading brands and has a clear strategy for long-term growth.

### Ian Burke

Chairman

16 August 2017



### More information

Operating responsibly	26
Corporate governance	52



## BUSINESS MODEL

# CREATING VALUE FOR OUR STAKEHOLDERS

## Our inputs

**Robust balance sheet**

We have a strong balance sheet supported by strong cash generation.

**Inspiring people**

We employ over 10,000 talented and dedicated individuals who have a desire to create the best experience for our customers.

**Extraordinary venues**

We have a portfolio of 151 venues that facilitate our customers to ensure they are entertained.

**Strong relationships**

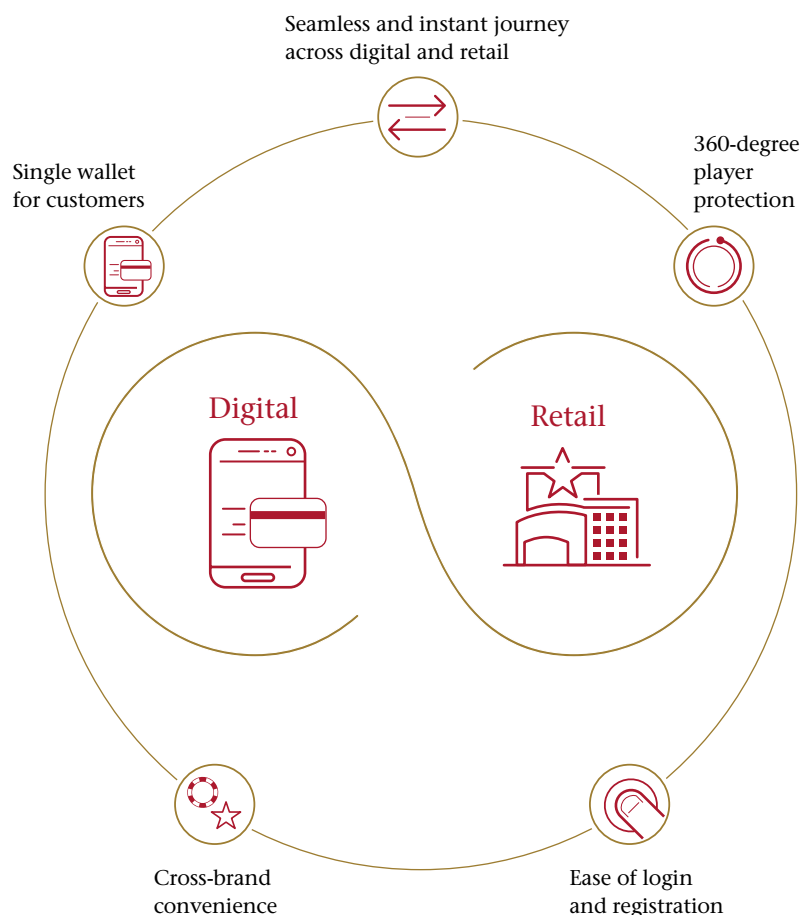
Our relationships with the communities we serve and with our suppliers form a vital part of our strategic plans to deliver a quality product and service to our customers.

**Reputable brands**

We own a number of well-known brands with a strong affinity amongst certain customer segments.



## Focused on delivering a multi-channel experience



## Underpinning everything we do is our commitment to operating responsibly

We understand that our success as a business is dependent upon society's view of our role in the communities we serve. Rank is very much aware that, whilst the principal purpose of our businesses is to provide an exciting and entertaining experience for our customers, there is also a need to protect those few customers who may be most at risk of gambling-related harm.

**More information**

Operating responsibly

26



#### More information

Strategy	24
Operating review	32

## Investing in key areas of our business



### 1. Customer relationships

The customer is at the heart of our business and we continue to work to enhance the customer experience, with the aim of developing more multi-channel customers.



### 2. Technology

We are enhancing our capability across digital channels so we can meet the changing needs of our customers and capture a greater share of the digital market.



### 3. Innovation

We are continually looking at how we can change our offer to meet the changing needs of our customers.



### 4. Venues

We are constantly evolving and enhancing the experiences that we offer to our customers, and in doing so growing our revenue.

## Creating value for our stakeholders

### Our customers

We create value for our customers by providing them with market-leading entertainment, meeting their expectations through our multi-channel offer.

# 2.8M

Customers

### Our shareholders

Through focused investments to meet our customers' needs, we generate suitable returns for our shareholders.

# £83.5M

Operating profit

### Our employees

We provide our talented and dedicated individuals with rewarding and fulfilling careers, ensuring that their behaviour is aligned with our company values.

# 10,039

Employees

### Our communities

We provide additional value to the communities we serve through our operating responsibly programmes.

# £0.5M

Charitable funds raised

### Governments

The value we create goes back into the economies we operate in.

# £239.0M

Generated for tax authorities and local governments

## Our STARS values ensure that we behave in the best possible way

The Group's STARS values reflect the behaviours vital for our employees to successfully deliver against Rank's strategic goals.



Service



Teamwork



Ambition



Responsibility



Solutions



#### More information

Operating responsibly	26
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# DEVELOPING CUSTOMER RELATIONSHIPS







## Multi-channel multi-brand customer events

In the UK, Rank is one of the few gaming companies in a position to provide customers with a genuine multi-channel gaming offer. We have a number of key assets, including a portfolio of 151 venues, our membership-based model with approximately three million registered members, our loyalty and reward programmes and the high levels of engagement that our team members enjoy with customers. As part of Rank's strategy to build a compelling multi-channel offer, numerous multi-channel customer events were held in the year; below are some examples.

### Grosvenor Casinos' new digital sports offer

Cheltenham Festival and Ascot preview events were held in the year; both evenings were hosted by various horse racing personalities with over 70 guests in attendance. Guests were provided with a race-by-race betting guide for the horse racing events in addition to the experts 'best picks'. Guests included retail and digital casino customers as well as invited VIPs.

### Big Bingo Bash

During the year, Rank leveraged its position of being able to offer its customers not just cross-channel gaming experiences but also cross-brand experiences. In May 2017, digital bingo VIP customers were invited to experience both the Group's UK retail brands. The evening featured dinner in Grosvenor's Southend casino followed by an evening at Mecca Southend's Big Bingo Bash event, a new bingo concept launched in the year.



# EXCITING NEW TECHNOLOGY



## Neon roll-out

During the year, the Neon casino management system roll-out was completed across Grosvenor's retail casino estate.

The new system is a key building block in providing our casino customers with a single account and wallet across both our digital and retail channels – a key strategic priority for Grosvenor Casinos in creating a compelling multi-channel offer.

Neon brings many improvements over the previous system, with the ability to track customers' play in casino a key area.

Business intelligence functionality has also been included in the system, which enables Rank to:

- ♦ perform demand modelling and yield management for table gaming and machines;
- ♦ analyse machine game performance; and
- ♦ generally, see a more detailed view of the business.

Over the course of 2017/18, further Neon functionality will be rolled out across the casino estate to include player tracking for slots and electronic roulette, table management and a replacement loyalty system.







Min GBP0.50 Max GBP

11 Column

5	22
23	6
19	22
16	36
30	
23	
32	

or Nottingham

Place Your Bet







# ENTERTAINING THROUGH INNOVATION





## Luda

Rank's first new concept bingo club, Luda, was opened on 7 August 2017 in Walsall. The Group is planning to open two additional Luda venues by the end of 2017.



## Luda key facts

- ◇ High street or city centre locations
- ◇ Smaller footprint than Mecca, typically 2,500 to 5,000 square feet
- ◇ Provides customers with a high-tech slots lounge
- ◇ Flexible bingo in terms of pricing and session times
- ◇ More modern environment targeted at a different audience to Mecca
- ◇ Opportunity for customers to participate in local, regional and national link bingo games
- ◇ Coffee-shop-style food and beverage offer available all day including hot food and alcohol



# ENTERTAINING VENUES



## Nottingham and Leeds Westgate casino refurbishments

During the year, Grosvenor's casinos in Nottingham and Leeds Westgate underwent significant refurbishments at a total cost of £5.1m.

Both refurbishments delivered a more modern casino environment, better placed to accommodate leisure customers, casual guests and regular customers.



### Nottingham

- ◆ Reorganisation of venue to increase customer space and improve customer journey
- ◆ New front-of-house bar and restaurant
- ◆ Enhancement of external appearance
- ◆ New Sports Lounge facility
- ◆ Relocation of second casino licence and poker area
- ◆ New smoking terrace
- ◆ Increase in gaming product
- ◆ Incorporation of a multi-use area for private play, learn-to-play and parties

### Leeds Westgate

- ◆ Creation of de-licensed 'welcome zone' area at the casino entrance
- ◆ New Sports Lounge facility
- ◆ Addition of second casino licence with casual dining area and slot machines
- ◆ Redecoration of all public areas
- ◆ New smoking terrace
- ◆ Enhancement of external appearance
- ◆ Reorganisation of venue to increase customer space and improve customer journey







# IN THE SPOTLIGHT

## Q&A



### How would you characterise this year's performance?

Overall, we are satisfied with where we ended up for the year, with some obvious caveats and considerations. We suffered a dip in retail visits and performance last summer and struggled to recover, leading to a weaker first half of the year than we would have expected. But an improvement in performance in the second half of the year together with some cost reductions led to a much stronger second half, contributing £46.9m of operating profit<sup>1</sup> compared to £36.6m in the first half.

Grosvenor applied a much more stringent application of customer diligence with respect to evidencing source of funds, which, together with lower gaming margins on our VIP activity, led to lower than anticipated revenues. Grosvenor also implemented what it termed 'Project One', changing and harmonising pay and benefits across the casino estate. This was a considerable

upheaval which met with some employee opposition and undoubtedly had an impact on morale and performance. The business should now be in a much stronger and positive position with the project fully implemented.

Mecca suffered from declines in visits, but managed to outperform its main competitors and continued to maintain good cost control. More importantly, we have trialled a number of bingo variants – for example, Big Bingo Bash, Bonkers Bingo – which are showing promise, and, with the recently launched Luda, there is plenty to drive growth.

Our digital business had a strong year with profits up significantly. With 15% revenue<sup>2</sup> growth we are outstripping UK market growth for digital gaming, with Grosvenor continuing its stellar trajectory and Mecca showing good progress in the lower growth digital bingo sector. We changed our digital operating structure, making way for a multi-brand approach, and made a number of new hires into key positions, such that we feel that we now have a very strong team. We also continued to develop our Sheffield Customer Solutions Hub, which has gone from strength to strength and gives us real competitive capability.

<sup>1</sup> Before exceptional items.  
<sup>2</sup> Before customer incentives.



In Spain, where the economy continues to recover, our Enracha business had a very positive year with revenues and profits<sup>1</sup> up 23% and 72% respectively. Although just nine bingo clubs, with a digital service fully launching in 2017/18 and with possibilities on the retail side, we are excited about Enracha's continuing growth potential.

We also continued to look at how we could best run the centre of our organisation, closing our central London office and moving to a larger and more modern Maidenhead headquarters. The resulting workspace has led to a much more unified organisation and a positive environment.

## Where do the Company's priorities lie in the next 12 months?

Beyond achieving performance targets and all our brands showing solid growth, we are focused on five specific areas which will help drive growth and long-term value. In the course of 2017/18, we will launch a single account and wallet product across our Grosvenor channels. It will see the delivery of a complex solution combining different systems and technologies from a range of partners and suppliers. The result will be a joined-up retail and digital business with customers being able to move seamlessly between the two, which should drive activity and volumes in both. We will also be launching a number of new digital brands this year, which should also help digital growth. Although Mecca and Grosvenor are strong, established brands, they appeal to a certain customer segment and having additional brands will give us an improved ability to 'cross-sell' customers into new brands and reactivate dormant customers.

Grosvenor's nine London casinos generate approximately half of its profit. Whilst successful clubs in their own rights, they have historically been run fairly independently and have not utilised their combined benefit to full effect. Implementing a clear Grosvenor London strategy is therefore a priority for the year. We have just opened our first new Luda site, bringing bingo-led entertainment to the high street, in August 2017. Opening further Ludas and making the concept a success will also be an area of focus for the year. Finally, with rising operating costs, including increases in the National Living Wage and higher inflation, we are focused on keeping central and above-club costs disciplined whilst improving our support capability.

**"Beyond achieving performance targets and all our brands showing solid growth, we are focused on five specific areas which will help drive growth and long-term value."**

## What is your view on the regulatory outlook for the gambling industry?

The whole gambling sector is waiting for the Department of Media, Culture and Sport (DCMS) to publish the recommendations of their review of stakes and prizes on gaming machines, social responsibility measures and gambling advertising: what has been termed the 'Triennial Review'. The DCMS has delayed publication a couple of times, latterly because of the general election, and the Review is now expected in October or November of this year. There is media speculation that stakes on B2 machines or 'fixed odds betting terminals' in betting shops will be reduced, but curbs being placed on TV advertising are also a possibility. Neither of these issues would have a big impact on our business: we do not have B2 machines in any of our premises and we are not a significant TV advertiser.

As part of the consultation process, we, together with the rest of the casino industry, argued for a harmonisation of 1968 Act and 2005 Act casino licences, which would mean that 1968 licences (the vast majority of our licences) would be entitled to a higher number of slot machines based on a higher gaming machine-to-table ratio. Only 3% of the UK's slot machines are currently located in casinos and we estimate that harmonisation of licences would only move this to 4%. We believe a harmonisation of licences would open the way for increased investment and further non-gaming amenity to be contained within casinos, more akin to the US or continental casino model.

From August 2017, remote gaming duty at 15% will be due on any bonuses or freebets given to digital customers. Based on last year's numbers this would have translated to £3.3m additional gaming tax. There is always scope for the government to increase gambling taxes but, given this recent move, we would be surprised if there were any further changes imminent on the digital side.

Land-based bingo is taxed at 10% (reduced from 20% in 2014), casino table games are subject to a 15-50% tax scale based on volumes, and most slot machines are subject to 20% machine gaming duty. Changes to tax are impossible to predict but we do not anticipate that these rates will change in the short term.



### More information

Strategy	24
Operating review	32

## CHIEF EXECUTIVE'S Q&amp;A

Beyond regulation, we believe that the gambling industry has suffered a deterioration in trust in the eyes of customers, politicians and the media in the last few years. This has been reflected in the increased negative media coverage of the gambling sector. Whilst much of this criticism is justified and we support continued scrutiny of our industry, we believe that much is being done in and around the industry to promote responsible gambling and to minimise gambling-related harm that often gets overlooked. As this develops we believe the industry will regain some of that lost trust and be viewed in a more positive light.

### Land-based retail businesses throughout the UK are struggling. What is your perspective on your own retail growth?

In general retail terms, there has been an undoubted shift from much of the high street to the digital world with some high-profile casualties along the way. However, where that shift has been most marked is where customer interaction is predominantly transactional: where the convenience and choice offered by a digital transaction trump anything on offer on the high street. But when there is an experiential element to a good or service, the digital world often provides a less compelling proxy. In our bingo venues and casinos, we offer both transactions and experiences and have the added advantage that when it comes to gaming, many customers still want to play with or draw their winnings in cash. So, we have no doubt that both casinos and bingo venues will prosper long into the future but, to maximise their ongoing potential, they will need to focus more on the experiential side of things and continue to adapt and change their offer. We feel we are well positioned on both fronts.

### Will Brexit have an impact on your business?

With the exception of our Enracha business (4% and 7% of Group revenues and profits respectively), the majority of our revenues and costs are in pounds sterling and we have no direct benefit from a single European market. A significant number of our employees are non-British EU nationals, so their continued right to residency in the UK is important to us – something to which the UK government has now committed. Our digital operations are based out of, but not licensed in, Gibraltar (we hold both UK and Alderney digital licences), meaning that any change to

**“We believe that much is being done in and around the industry to promote responsible gambling and to minimise gambling-related harm that often gets overlooked.”**

Gibraltar's access to the EU market would not impact us. Were the border between Gibraltar and Spain to close we would need to enact contingency measures, similar to other gaming companies, as many of our employees currently live in Spain rather than Gibraltar. However, we see no imminent threat of this happening and have appropriate plans in place.

### How has the introduction of company-wide values evolved in the last year?

We launched our STARS values in July 2016, representing Service, Teamwork, Ambition, Responsibility and Solutions. This is the first time that Rank has had a single set of values across its businesses and reflects the fact that our businesses are increasingly bound together by the same set of opportunities and challenges.

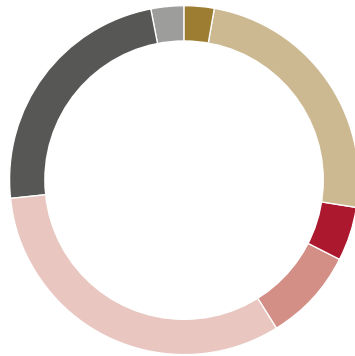
Since their launch we have tried to embed our values into our business processes and daily working lives. An example of this has been threading our values through the lifecycle of an employee: assessing potential candidates based on evidence of displaying our values; adapting our employee appraisal process, such that our people are assessed on their adherence to our values as well as their individual objectives; and incorporating a values assessment as part of exit interviews. But beyond this example, there are many different areas, both in our venues and at the centre, where our values now play an important part in our company.

We believe our values are key both to business success and to shaping an organisation that has the right culture and ethos for dealing with many of the complexities of gambling, including the sometimes negative impact it can have on customers. As such, we will continue to evolve how our values are used and embodied in our business and to try to track and measure our progress.

**Henry Birch**  
Chief Executive  
16 August 2017

# UNDERSTANDING OUR INDUSTRY

## TOTAL GREAT BRITAIN GROSS GAMBLING YIELD (£M)<sup>1</sup>



ARCADES – RETAIL	413
BETTING – RETAIL	3,406
BINGO – RETAIL	682
CASINOS – RETAIL	1,190
DIGITAL BETTING, BINGO AND CASINO	4,461
NATIONAL LOTTERY – RETAIL AND DIGITAL	3,265
LARGE SOCIETY LOTTERIES – RETAIL AND DIGITAL	404



More information

Operating review 32

## Retail casino<sup>1</sup>

In the year ended 30 September 2016, the British retail casino market generated £1,190m (£993m in the prior year) in gaming revenue, representing around 9% of consumer expenditure on gaming and betting.

Attendance levels marginally increased to 20.5m in the year ended 30 September 2016, from 20.4m in the prior year.

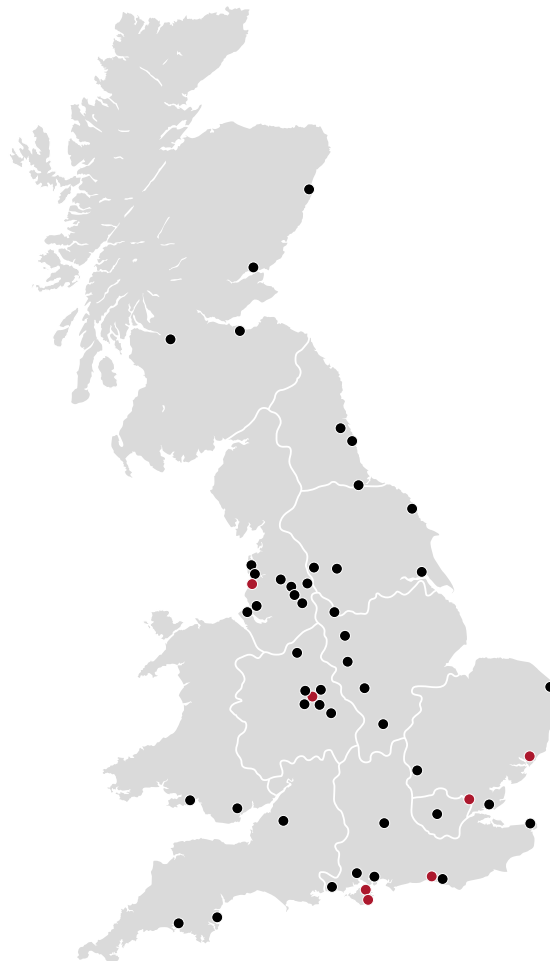
Average spend per visit rose by 19% to £58.05 (includes expenditure on food, drink, entertainment and gaming).

### Supply

As at 30 June 2017, the number of casino licences operating in Great Britain was estimated to be 146. All but six of these casinos were licensed under the 1968 Act, and when the 1968 Act was superseded by the 2005 Gambling Act ('the 2005 Act') the rights of these casinos were 'grandfathered'.

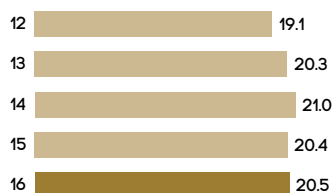
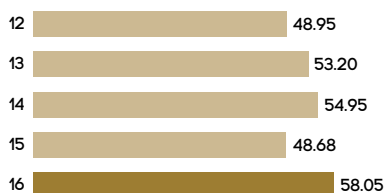
1968 Act casinos may only operate in 53 'permitted areas' as follows:

- PERMITTED AREA
- PERMITTED AREA WITH A GROSVENOR CASINO OPERATING



<sup>1</sup> As published by the UK Gambling Commission for the year ended 30 September 2016.

## MARKET REVIEW CONTINUED

GREAT BRITAIN CASINO ATTENDANCE (M)<sup>1</sup>GREAT BRITAIN SPEND PER VISIT (£)<sup>1</sup>

<sup>1</sup> For the year ended 30 September; UK Gambling Commission.

## Casino supply

Operator	As at 30 June 2017		As at 30 June 2016	
	Venues	Licences	Venues	Licences
Grosvenor Casinos	54 <sup>2</sup>	77 <sup>2</sup>	56 <sup>2</sup>	77 <sup>2</sup>
Genting	40 <sup>2</sup>	56 <sup>2</sup>	41 <sup>2</sup>	56 <sup>2</sup>
Caesars Entertainment UK	9	11	9	11
A&S Leisure	6	6	6	6
Double Diamond	6	7	6	7
Aspers/Aspinall's	7 <sup>2</sup>	9 <sup>2</sup>	7 <sup>2</sup>	9 <sup>2</sup>
Club 365	3	3	3	3
Clockfair	2	2	2	2
Guoco	1	1	1	1
Others	12 <sup>2</sup>	26 <sup>2</sup>	12 <sup>2</sup>	26 <sup>2</sup>
<b>Total</b>	<b>140</b>	<b>198<sup>3</sup></b>	<b>143</b>	<b>198<sup>3</sup></b>

<sup>2</sup> Includes 2005 Act casino licences.

<sup>3</sup> Of which 146 licences were operating (Rank's estimate).

## 2005 Act casinos – market update

During the year, two 2005 Act licensed casinos opened, in Leeds and Wolverhampton. The following table summarises the 2005 Act casinos currently operating.

Local authority	Operator	Date opened
Leeds City Council	Global Gaming Ventures	26/01/17
London Borough of Newham	Aspers	01/12/11
Luton Borough Council	Grosvenor Casinos	28/08/15
Milton Keynes Borough Council	Aspers	05/09/13
Solihull Borough Council	Genting	26/10/15
Wolverhampton	Casino 36	12/11/16

Two further 2005 Act casino licences have been awarded to operators but are not yet operating (Southampton and Bath).

## Gaming machine allocation

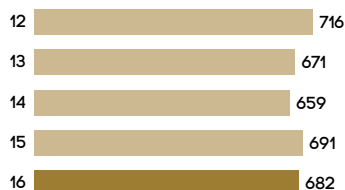
In a 1968 Act casino, a maximum of 20 machines can be offered and can be any machine category B to D (except B3A machines), or any number of category C or D machines.

There are two different types of 2005 Act casino licence: large or small. Both have gaming machine limits based on a machine-to-table ratio. For a large casino licence, you can offer up to a maximum of 150 machines based on a maximum 5:1 machine-to-table ratio. For a small casino licence, you can offer a maximum of 80 machines based on a maximum 2:1 machine-to-table ratio. For both large and small casino licences, you can have any combination of B to D machines (except B3A machines).

## Retail bingo

Gaming revenues from British licensed bingo clubs decreased by 1% for the year ended 30 September 2016.

### GREAT BRITAIN GROSS GAMBLING YIELD (£M)<sup>1</sup>



<sup>1</sup> UK Gambling Commission.

### Supply

At 30 June 2017, there were an estimated 358 bingo clubs operating in Great Britain, down five from a year earlier. Mecca remains the second largest operator (by venues) of licensed bingo clubs in Great Britain.

Bingo licences are permitted in any part of Great Britain.

### Gaming machine allocation

Licensed bingo clubs can offer B3, B4 and category C and D machines.

The number of B3 or B4 machines is restricted to 20% of the total number of gaming machines provided per bingo club; however, the number of category C and D machines can be unlimited.

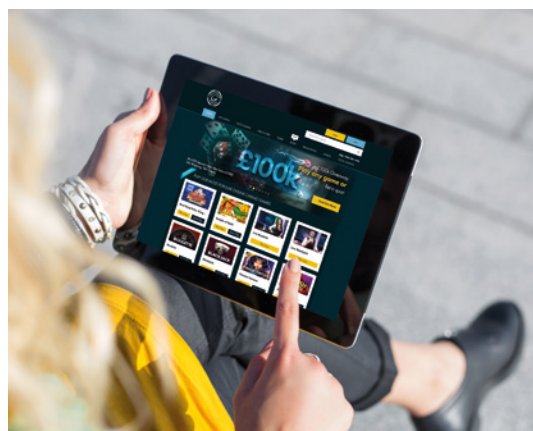
Operator	As at 30 June 2017	As at 30 June 2016
Gala Bingo	130	130
Mecca	85	87
Majestic	16	15
Carlton Clubs	13	13
Club 3000	12	12
Castle	11	11
Beacon	8	9
Others	83	86
<b>Total</b>	<b>358</b>	<b>363</b>

## Digital market

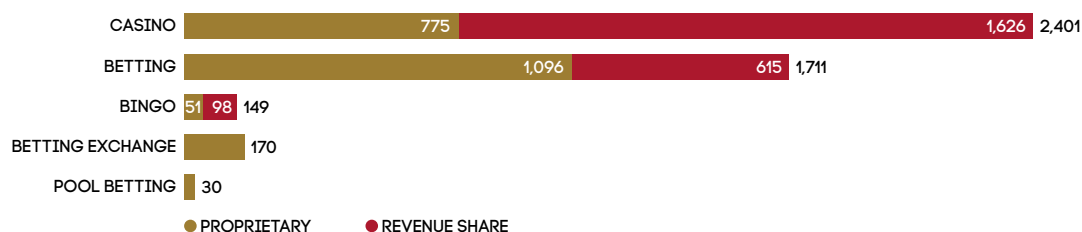
The UK digital gambling market is estimated to be £2,878m<sup>3</sup> in 2017, with digital bingo estimated to grow by 3% and digital casinos by 14%.

As at 30 September 2016, the UK Gambling Commission reported that there were 21.41m active digital customer accounts covering bingo, casino and betting, up from 20.02m reported at 31 March 2016.

<sup>3</sup> As per H2 Gambling Capital.



### GREAT BRITAIN DIGITAL GROSS GAMBLING YIELD (£M)<sup>2</sup>



<sup>2</sup> UK Gambling Commission, for the year ended 30 September 2016.

# MAKING GOOD PROGRESS

## Creating a compelling multi-channel offer

- ◆ Leverage Rank's unique position to provide a true multi-channel gaming offer

### 2016/17 progress

- ◆ Continued investment in and development of Grosvenor's single account and wallet
- ◆ Affiliate programme for Grosvenor Casinos piloted to encourage customer crossover from retail to digital
- ◆ Multi-channel events held for VIP customers
- ◆ Digital membership available in Mecca retail

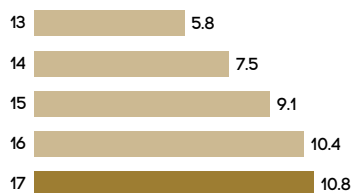
### 2017/18 priorities

- ◆ Trial and subsequent roll-out of single account and wallet in Grosvenor Casinos
- ◆ Dual play, the live streaming of retail games through the Group's digital channels
- ◆ Roll-out of affiliate programme for Grosvenor Casinos
- ◆ Increased use of self-service terminals in Mecca
- ◆ Mobile ordering of food and beverage in Mecca

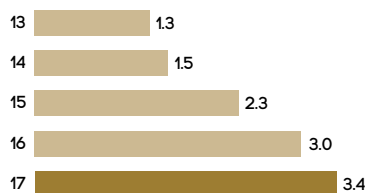
### Relevant risks

- ◆ Regulatory, finance, business environment and taxation
- ◆ Operational
- ◆ Information

### MECCA CROSS-CHANNEL CROSSOVER (%)



### GROSVENOR CASINOS CROSS-CHANNEL CROSSOVER (%)



## Building digital capability

- ◆ Significant growth opportunity for the Group

### 2016/17 progress

- ◆ New digital sports betting offer launched
- ◆ Improved digital poker offer launched
- ◆ New restructured digital team in place
- ◆ Improved digital live casino offer launched
- ◆ IOS and android apps launched for digital poker
- ◆ New digital games suppliers appointed providing new and exclusive games

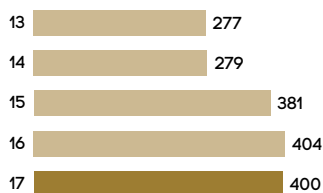
### 2017/18 priorities

- ◆ Digital Enracha offer, enracha.es, to be relaunched with a full marketing programme
- ◆ Launch of Luda's digital offer
- ◆ New digital brand, Bellacasino, launched in July 2017
- ◆ Launch of new Live Casino app, in August 2017
- ◆ Go-live of new digital content management system
- ◆ New Android apps in Google Play store

### Relevant risks

- ◆ Regulatory, finance, business environment and taxation
- ◆ Operational
- ◆ Information

### DIGITAL CUSTOMERS ('000)



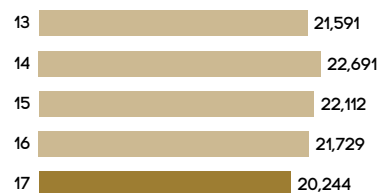
## Developing our venues

- ◆ Venues are a material part of the Group's business

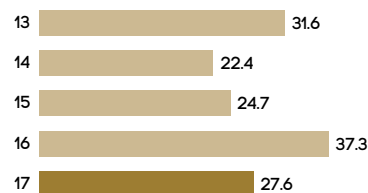
### 2016/17 progress

- ◆ Refurbishment of Leeds Westgate and Nottingham casinos
- ◆ Refurbishment of Mecca Swansea
- ◆ New London casino strategy launched with the proposed refurbishment of the Barracuda casino and ongoing refurbishments of the Golden Horseshoe and Piccadilly casinos
- ◆ Launch of new bingo concepts – Batty Bingo, Bonkers Bingo and Big Bingo Bash

### VENUES CUSTOMER VISITS ('000)



### VENUES CAPITAL INVESTMENT (M)



More information  
Operating review

32

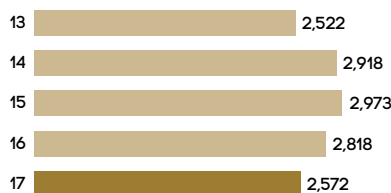
### 2017/18 priorities

- ♦ Launch Luda retail with first venue opened in August 2017 and a further two sites to be open by December 2017
- ♦ Continue to utilise unused casino licences where possible
- ♦ Identify alternative casino venue locations
- ♦ Refurbishments under the new London casino strategy
- ♦ External refurbishment of Mecca Beeston and a new food and beverage offer
- ♦ Review and develop gaming machine offer in retail bingo venues to help drive new customers
- ♦ Roll-out of new bingo concepts to additional bingo venues
- ♦ Develop and trial a new concept casino experience

### Relevant risks

- ♦ Regulatory, finance, business environment and taxation
- ♦ Operational
- ♦ Information

### VENUES CUSTOMERS ('000)



## Investing in our brands and marketing

- ♦ Rank possesses a number of well-known brands
- ♦ Look to develop new brands

### 2016/17 progress

- ♦ New Customer Solutions Hub launched in Sheffield in September 2016
- ♦ New two-year sponsorship deal agreed with Fulham Football Club by grosvenorcasinos.com
- ♦ Investment in a new VIP customer services team

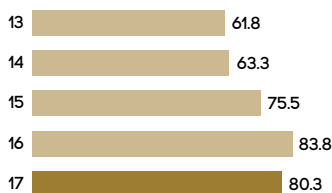
### 2017/18 priorities

- ♦ Investment in Mecca digital marketing
- ♦ Digital marketing through further high-profile sponsorship deals
- ♦ Launch of a new customer relationship management system, Adobe Campaign, to provide more timely and personalised customer communications
- ♦ Roll-out of a replacement loyalty system across Grosvenor's casino estate

### Relevant risks

- ♦ Operational
- ♦ Information

### MARKETING SPEND (INCLUDING CUSTOMER INCENTIVES) (M)



## Using technology to drive efficiency and improve customer experience

- ♦ Look to improve customer experience and operating margins to create a competitive edge

### 2016/17 progress

- ♦ Successful roll-out of a new casino management system, Neon, across Grosvenor's casino estate
- ♦ Additional Neon functionality (replacement loyalty system, player tracking functionality for slots and electronic roulette, and table management system) successfully piloted in Grosvenor's Stockport casino
- ♦ Roll-out of 2,550 additional Mecca Max units across Mecca's retail estate
- ♦ Following positive customer feedback, Get Set Roulette was rolled out to additional casinos
- ♦ Investment in new head office systems for both human resources and finance
- ♦ Roll-out of a new electronic point of sale system including new contactless terminals (approx. 80% complete)

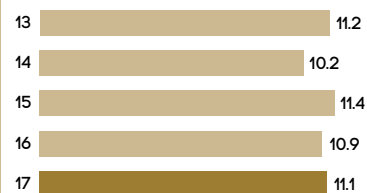
### 2017/18 priorities

- ♦ Review electronic roulette pricing and number of units in casino estate to improve efficiency and suitability of offer
- ♦ New rostering system to be implemented in both the casino and bingo retail estate to improve labour efficiencies
- ♦ Full suite of Neon applications (as per Stockport trial) to be rolled out across entire casino estate
- ♦ Refurbishment of 5,100 Mecca Max units across Mecca's retail estate
- ♦ Increased use of self-service terminals in Mecca
- ♦ Planned roll-out of electronic baccarat and additional side bets on electronic roulette

### Relevant risks

- ♦ Operational
- ♦ Information

### OPERATING PROFIT MARGINS (%)





# RESPONSIBLE GAMBLING

Our purpose is to bring excitement and entertainment to the customers and communities we serve. We understand our responsibility to all in our communities. We aim to act with the highest integrity and honesty in everything we do.

## Our customers – responsible gambling 2016/17 in review

Our commitment to acting responsibly is rightly clear to see in our commitment to minimise the potential for harm from gambling. Whilst the prevalence of gambling problems in Great Britain appears broadly stable, it is certain that the industry continues to innovate at pace, introducing new products and services and embracing the greater use of mobile gambling devices for those customers increasingly seeking multi-channel access to gambling entertainment. The challenge presented by combatting problem gambling is itself increasingly complex and evolving, but many of the same technologies and developments can assist in this regard. Any development of products and services can and must be undertaken with as firm a focus on meeting our social commitments, as well as our commercial objectives. There can be no doubt that our commitment to responsible gambling must remain and must grow and that we should be a positive example for others in the industry.

Building upon past investment, Rank took significant steps in 2016/17 to increase the scale and impact of its response to the prevention and detection of problem gambling.

Oversight by the board is ensured by the board's responsible gambling committee, chaired by the Rt. Hon. The Earl of Kilmorey. During the year, the committee examined and contributed to a number of critical matters, including the government's review of gaming machines and social responsibility and the annual assurance statement submitted by Rank to the Gambling Commission. The committee met with and gained key insights from Dr Simon Tanner of the Responsible Gambling Strategy Board and, separately, Professor Ian McHale of Salford University who, along with Professor David Forrest, completed extensive research into machine play and indicators of problem gambling behaviour using anonymised data from Grosvenor Casinos.

Two new roles were created by Rank during the year, a head of responsible gambling and a responsible gambling data scientist. In particular, the data scientist role has significantly enhanced Rank's analysis of historic player behaviour amongst digital customers, improving our ability to recognise risk and to know when a responsible gambling intervention may be helpful. The challenge, not only for Rank but for the whole industry, is to trial and determine the effectiveness of a range of possible intervention methods and to understand how to effectively time any intervention so to have the greatest benefit in encouraging our customers to reflect upon their play. The coming year will see us continue to focus on this important topic.

The establishment of our new customer contact centre in Sheffield, the Customer Solutions Hub (CSH), allows us to better embed our policies and procedures for responsible gambling and to improve the monitoring of customers, particularly those joining us online. The CSH, working across the Rank brands and channels to support and service customer needs, is ideally placed to improve our joined-up view of a customer and their experience wherever they choose to play. The CSH will grow in experience to play a pivotal role in the delivery of our player protection initiatives. During the year, extensive training has been provided to CSH employees to develop their awareness and understanding of problem and at-risk gambling and to know what to look for and how to respond when a customer, or the behaviour of a customer, suggests they may no longer be enjoying their play.



More information  
[keepitfun.rank.com](http://keepitfun.rank.com)







#### More information

Responsible  
gambling  
committee 69

## Responsible gambling in the year ahead

In the latter part of 2016/17, Rank drafted a two-year plan of activity to further advance its policies, systems, training and tools for responsible gambling. 2017/18 will see the implementation of several initiatives designed to:

- ◆ inform and improve the way we deliver responsible gambling messaging to all our customers, and how we direct customers concerned about problem gambling to professional help and support;
- ◆ enhance our ability to detect early and challenge behaviour that may indicate a problem or risk of a problem;
- ◆ give greater control to our customers to manage the time and money they spend and to improve their ability to review and consider their past play;
- ◆ build upon existing training for our employees, ensuring they have the latest knowledge and awareness and understand how to act appropriately when concern for a customer arises;
- ◆ improve internal awareness of responsible gambling initiatives across the Group to further embed player protection at a cultural level and to enhance cross-channel working; and
- ◆ evaluate and assess the impact and effectiveness of our responsible gambling policies and procedures, informing future development and investment.

## Cross-industry working

Rank remains committed to working collaboratively across the industry, most frequently through the respective bingo, casino and online gambling trade associations of which it is a member, to support and build on shared best practice and to encourage the highest standards in responsible gambling and player protection.

One such initiative to which Rank remains firmly committed is the ongoing development and improvement of multi-operator self-exclusion schemes. The ability for anyone recognising they have a problem to prevent their own access to gambling in the most effective way, so they may focus on their recovery and not be at risk of temptation, is incredibly important. In recent years we have seen the implementation of the Bingo Industry Self-Exclusion Scheme (BISES) and the Self-Enrolment National Self-Exclusion (SENSE) scheme by the casino sector. Both enable a customer to prevent their own access for a minimum of six months to local and national venues through a single enrolment. We believe such schemes can be very beneficial to anyone experiencing harm from gambling. Rank will continue to support the development of the respective retail self-exclusion schemes, including their review and evaluation.

## OPERATING RESPONSIBLY CONTINUED

During 2017/18 Rank expects to see a similar scheme launched for our online gambling and we will very much welcome its arrival. We know from the small percentage of our customers who self-exclude online, and from experts in the field of problem gambling treatment, that such a facility is greatly needed.

However, Rank remains concerned that the work on self-exclusion will still not be complete when the various self-exclusion schemes are all available and established. Though self-exclusion is designed and intended for players experiencing a gambling problem, we are increasingly concerned that it is a facility also used by customers who might be dissatisfied by the service provided by a gambling operator – even when a gambling problem is not present. We think this may especially be the case in relation to gambling online where it is quick and easy to self-exclude with one operator and register with another. Recent research by the Gambling Commission indicates that more than 40% of people entering a self-exclusion may have been doing so for reasons other than controlling spend (with a particular operator or overall) and therefore that assuming self-exclusion to be confirmation that a customer is experiencing problem gambling may, in some cases, not be correct.



Rank feels strongly that self-exclusion should be a reliable proxy for harm and that customers using self-exclusion for reasons of problem gambling can inform greatly the further improvement of efforts to protect others. As a whole, but in particular perhaps by the online industry, more needs to be done to offer alternatives to dissatisfied customers and to encourage the use of self-exclusion only by those experiencing or at risk of a gambling problem. We will continue to contribute our own efforts to this end and to raise best practice across the industry where we can.

## Our employees

### 2016/17 in review

- ◇ Defined and launched Rank's new set of group-wide values, STARS
- ◇ Identified and presented to all employees how the STARS values translate into behaviours for all individuals, leaders and teams within Rank
- ◇ Integrated the STARS values into the Group's performance management processes
- ◇ Harmonised pay and benefits across Grosvenor Casinos venues employees
- ◇ Launched a new group-wide centralised human resources system

### Our priorities for the year ahead

- ◇ Continue the review of operating structures to ensure effective and efficient working practices are in place
- ◇ Continue to develop our digital and IT capability to support business growth
- ◇ Improve employee engagement across the Group, with a particular focus on improving communication
- ◇ Continue the development of a new 'high-performance' model to help assess and identify talented individuals within the Group

### Culture

Back in 2015, Rank introduced a new strategic direction for the Group which relies on greater interdependence between and co-operation across Rank teams. To engender a culture of working together to build capability and solutions rather than supporting brand, location and department silos, the Group developed, across all brands, a group-wide set of values with the following supporting purpose statement:

## To bring excitement and entertainment to the customers and communities we serve.

### To excite and to entertain

Employees across the business were consulted to ascertain what values were considered key to achieving the Group's strategic objectives. The Group's new values, STARS, were subsequently launched on 6 July 2016.

## Celebrating our values

Employees from across Rank attended the STARS launch event in July 2016.



**Service** – We start with the customer. We do everything in our power to deliver special service every time.



**Teamwork** – We pull together across brands, channels and locations to perform at our very best.



**Ambition** – We challenge the way we do things and explore new ways to excite and entertain our customers and outshine the competition.



**Responsibility** – We understand our responsibility to all in our communities. We act with the highest integrity and honesty in everything we do.



**Solutions** – We act positively to get to the heart of problems quickly and find ways to solve them.



## OPERATING RESPONSIBLY CONTINUED

### Learning and development

During the year, a total of 3,500 employees accessed in-house e-learning courses; this is in addition to in-house and external training courses attended by employees which are not tracked centrally.

### Engagement

During the year two employee opinion surveys were sent to all Group employees. The survey scores are a proxy for employee engagement levels within our business. Over the year employee engagement fell by nine percentage points to 71%.

In addition, employees are asked questions on different aspects of their working life at Rank. Scores and comments are then reviewed and actions agreed where appropriate to address any identified issues.

Areas highlighted by the surveys included the need for better channels for communicating within the business and more opportunities for training and development.

### Health and safety

The key objectives of the 2016/17 health and safety strategy were:

- (i) to improve health and safety awareness across the Group through management training; and
- (ii) to reduce the number of employee and customer accidents in the UK by 10% from their level at the start of the year.

Positive progress has been made in the year against both objectives, with a completion rate of 100% for Grosvenor managers completing the e-learning course and a completion rate of 97% for Mecca managers.

Rank also exceeded its target of reducing accidents within the UK, having achieved an overall reduction of 22% across both Mecca and Grosvenor in the year.

### Diversity

Rank is committed to providing equal opportunities for all its employees. Rank's diversity policy ensures that every employee is treated equally and fairly and that all employees are aware of their responsibilities.

Please refer to page 66 which outlines the board's diversity policy.

The charts below provide a breakdown of the gender of directors and employees at 30 June 2017.

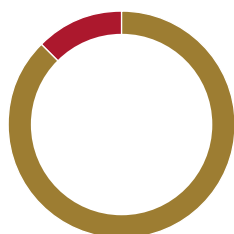
### Disability

Rank is committed to ensuring that people with disabilities are supported and encouraged to apply for employment with the Group and to achieve progress whilst employed. Disabled persons will be treated so that they have equal opportunities, so far as justifiable, to be selected, trained and promoted.

### Human rights

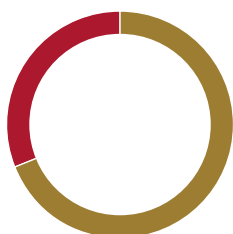
The board considers that it is not necessary for the Group to operate a specific human rights policy at present. Our policies already operate within a framework to comply with relevant laws and to respect the human rights of our employees and other stakeholders in the business.

#### BOARD



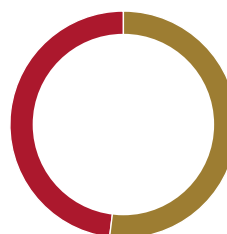
● MALE  
● FEMALE

#### SENIOR MANAGEMENT<sup>2</sup>



● MALE  
● FEMALE

#### WHOLE COMPANY



● MALE  
● FEMALE

<sup>1</sup> Excludes Alex Thursby, who was appointed to the board with effect from 1 August 2017.

<sup>2</sup> Senior management is as defined in the Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013, and includes: i) persons responsible for planning, directing or controlling the activities of the company, or a strategically significant part of the company, other than company directors, and ii) any other directors of undertakings included in the consolidated accounts.

## Our communities

### Rank Cares

The year saw Rank continue the Rank Cares programme with its charitable partner, Carers Trust. Rank employees managed to raise a fantastic £0.5m in the year and a total of £1.5m since the start of the partnership in February 2014.

The fundraising covers a wide range of activities from sponsored team challenges to employee payroll giving through the 'Pennies From Heaven' scheme.

The Rank Cares programme specifically supports carers through a grant-giving programme which has resulted in 6,624 carers receiving support since the start of the partnership.

Employees have also given up their own time to volunteer at local carers' services across the UK. More than 2,000 volunteer hours were completed by Rank employees in the year.

### About Carers Trust

Carers Trust works to improve support, services and recognition for anyone living with the challenges of caring, unpaid, for a family member or friend who is ill, frail, disabled or has mental health or addiction problems.

Carers Trust does this with a UK-wide network of quality-assured independent partners and through the provision of grants to help carers get the extra help they need to live their own lives.

With these locally based network partners, Carers Trust can support carers in their homes through the provision of replacement care, and in the community with information, advice, emotional support, hands-on practical help and access to much-needed breaks.

Carers Trust offers specialist services for carers of people of all ages and conditions and a range of individually tailored support and group activities. To find out more about the work Carers Trust does please visit its website at [carers.org](http://carers.org).



## Greenhouse gas emissions

	Year ended 30 June 2017			Year ended 30 June 2016		
	Tonnes of CO <sub>2</sub> e <sup>1</sup>	%	Tonnes of CO <sub>2</sub> e/£m revenue	Tonnes of CO <sub>2</sub> e <sup>1</sup>	%	Tonnes of CO <sub>2</sub> e/£m revenue
Scope 1						
Comprises gas use (plus gasoil in Belgium), owned transport and fugitive F-gas emissions	17,616	28		17,001	27	
Scope 2						
Comprises electricity generation	32,135	50		32,605	50	
Scope 3 <sup>2</sup>						
Comprises waste, materials use, flights, electricity transmission and distribution	13,822	22		15,040	23	
Outside of scopes <sup>3</sup>						
Represents the biogenic proportion of petrol and diesel	32	–		34	–	
<b>Total</b>	<b>63,605</b>	<b>100</b>	<b>89.9</b>	<b>64,680</b>	<b>100</b>	<b>90.8</b>

1 CO<sub>2</sub>e is a universal unit of measurement used to indicate the global warming of greenhouse gases expressed in terms of global warming potential of one unit of carbon dioxide.

2 Well-to-tank emissions for fuels (electricity, gas, petrol, diesel and aviation fuel), which would sit within scope 3, are not included in the report.

3 This is categorised as outside scopes rather than scope 3, in line with the Defra 2015 emission factor guidance.

## OPERATING REVIEW | CASINOS

## GROSVENOR CASINOS

## PERFORMANCE REVIEW



**Martin Pugh**  
Managing Director – Grosvenor Casinos

2016/17 has been a challenging year for Grosvenor's casinos, with like-for-like revenues<sup>1</sup> down 1%.

## Key financial performance indicators

	2016/17	2015/16	Change
Revenue <sup>2</sup> (£m)	397.2	408.1	(3)%
EBITDA <sup>3</sup> (£m)	76.6	85.9	(11)%
Operating profit <sup>4</sup> (£m)	52.1	60.9	(14)%
Like-for-like revenue <sup>1</sup>	(1)%		

The factors highlighted at the Group's half-year results continued to affect the performance in the second half of the year:

- ♦ gaming margin: for the full year gaming margin was 0.4 percentage points lower than the prior year across the entire estate and 6.9 percentage points down for our major players; and
- ♦ customer due diligence: more stringent customer due diligence to address money laundering, proceeds of crime and problem gambling.

Following a review of costs, savings of £1.2m were made in the year, with approximately £1.0m relating to employment costs.

The refurbishments of Grosvenor's Nottingham and Leeds Westgate casinos were completed in the year at a total capital cost of £5.1m. Both casinos have since traded well.

During the year two casinos were closed: Glasgow Princes Street and Leeds Merrion Way. Grosvenor plans to relocate these spare licences once the required planning and licensing approvals have been obtained.

## Key non-financial performance indicators

	2016/17	2015/16	Change
Customers <sup>5,6</sup> (000s)	1,350	1,557	(13)%
Customer visits (000s)	7,732	8,159	(5)%
Spend per visit (£)	51.37	50.02	3%

A combination of macro-economic conditions, customer due diligence, venue closures and competitor openings contributed to a 5% decline in customer visits in the year, with trends in the second half improving from the first half.

During the year, an exceptional cost of £5.2m was recognised relating to the underperformance of two casinos (Southend and Plymouth). Southend's performance has improved, though it is not yet generating the expected returns whereas Plymouth's performance has deteriorated in the year. Both casinos have improvement plans in place.

<sup>1</sup> Excludes venues openings, closures and relocations.

<sup>2</sup> Before adjustments for customer incentives.

<sup>3</sup> Before exceptional items.

<sup>4</sup> Before exceptional items, as per note 2 in the Financial Statements.

<sup>5</sup> Customers shown on a moving annual total basis.

<sup>6</sup> Following the introduction of 'partial' and 'full' open door where some of our casinos removed their requirement to register all customers, the participating casinos are unable to accurately track customer numbers, therefore total venues customers only include registered customers.

“The refurbishments of Grosvenor’s Nottingham and Leeds Westgate casinos were completed in the year at a total capital cost of £5.1m. Both casinos have since traded well.”



### Venues regional analysis

The casino estate is split into three key areas – London, Provinces and Belgium. To better illustrate different performance across the estate, analysis is provided below.

	Revenue <sup>1</sup> (£m)		Operating profit <sup>2</sup> (£m)		Customer visits <sup>3</sup> (000s)		Spend per visit (£)	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
London	140.1	150.3	24.6	31.7	1,398	1,482	100.21	101.42
Provinces	242.1	243.7	25.9	27.2	6,087	6,433	39.78	37.88
Belgium	15.0	14.1	1.6	2.0	247	244	60.73	57.79
<b>Total</b>	<b>397.2</b>	<b>408.1</b>	<b>52.1</b>	<b>60.9</b>	<b>7,732</b>	<b>8,159</b>	<b>51.37</b>	<b>50.02</b>

Grosvenor’s London casino market share<sup>4</sup> remained stable in the year against what has been a tough year for the London casino sector.

In Belgium, we have two casino concessions. For commercial reasons, it was decided during the year that the concession at Middlekerke would not be renewed; therefore from 1 September 2017 the Belgium operations will consist of only one casino in Blankenberge.

During the year, Blankenberge renewed its partnership with Unibet, which utilises its digital licence.

### Venues revenue analysis – Great Britain only

£m	2016/17	2015/16	Change
Casino games	248.3	261.6	(5)%
Gaming machines	89.5	86.5	3%
Card room games	15.3	15.3	0%
Food and drink/other	29.1	30.6	(5)%
<b>Total</b>	<b>382.2</b>	<b>394.0</b>	<b>(3)%</b>

A combination of investment into the slot machine estate in 2015/16 and the relocation of two licences alongside higher performing venues led to a 3% growth in gaming machine revenue.



<sup>1</sup> Before adjustments for customer incentives.

<sup>2</sup> Before exceptional items, as per note 2 in the Financial Statements.

<sup>3</sup> Unaudited.

<sup>4</sup> Based on visit data from the National Casino Forum; excludes high end casinos.

## OPERATING REVIEW | BINGO

## MECCA

## PERFORMANCE REVIEW



**Alan Morgan**  
Managing Director – Mecca

Like-for-like revenue<sup>1</sup> was down 3% in the year due to a reduction in customer visits. Improved cost discipline in the year led to a 2% fall in operating expenses; however, the fall in revenue led to lower operating profit<sup>2</sup>, down 9%.

#### Key financial performance indicators

	2016/17	2015/16	Change
Revenue <sup>3</sup> (£m)	213.6	221.5	(4)%
EBITDA <sup>4</sup> (£m)	41.8	45.5	(8)%
Operating profit <sup>2</sup> (£m)	29.9	32.9	(9)%
Like-for-like revenue <sup>1</sup>	(3)%		

During the year two venues were closed, West Bromwich in August 2016 and Bradford in November 2016. The closure of Bradford resulted in exceptional income of £10.7m following the successful surrender of Bradford's onerous lease.

#### Key non-financial performance indicators

	2016/17	2015/16	Change	LFL <sup>4</sup> change
Customers <sup>5,6</sup> (000s)	947	987	(4)%	(4)%
Customer visits (000s)	10,528	11,550	(9)%	(9)%
Spend per visit (£)	20.29	19.18	6%	6%

Like-for-like<sup>4</sup> customer visits fell by 9% in the period in contrast to a 6% increase in spend per visit in the year.

Mecca's performance on visits and revenues remains ahead of its key competitors, and it has a number of initiatives in place to drive visits in the current financial year. These include the roll-out of three

new experiential bingo events to our club estate – Batty Bingo, Bonkers Bingo and Big Bingo Bash. These event formats target a specific demographic (students, 18-30 year-olds and 25-45 year-olds respectively) and have been successfully trialled in pilot clubs.

Following a review of marketing effectiveness in the year, Mecca was able to reduce its marketing costs whilst still increasing its market share against key competitors.

A focus on increasing spend per visit and satisfaction levels led to the following new product and games being rolled out in the year:

- ♦ 5,250 Mecca Max units, of which 2,550 were incremental;
- ♦ new national game launched in February 2017;
- ♦ new American bingo game launched in April 2017;
- ♦ new-style experiential jackpot interval game;
- ♦ new food and beverage menu; and
- ♦ trial of a higher quality food and beverage menu at Mecca Beeston.

#### Venues revenue analysis

£m	2016/17	2015/16	Change	LFL <sup>4</sup> change
Main stage bingo	35.0	31.9	10%	11%
Interval games	82.9	89.5	(7)%	(7)%
Amusement machines	69.7	73.0	(5)%	(3)%
Food and drink/other	26.0	27.1	(4)%	(2)%
Total	213.6	221.5	(4)%	(3)%

Main stage bingo benefited in the year from the introduction of new bingo packages.

#### Luda – venues

On 7 August 2017, after some initial planning permission setbacks, the first Luda venue opened in Walsall. Two more Luda venues are due to open in Leeds and Weston-super-Mare during the first half of 2017/18.

Luda is a new bingo-led, high-street gaming venue, offering a competitive coffee shop and bar offer combined with bingo games, slot and arcade games in a modern and friendly environment. It is designed to target a different demographic from Mecca and will typically be located in town or city centres.

Dependent on performance, there are plans to roll out the concept rapidly. A digital version of Luda will also be launched in 2017/18.

<sup>1</sup> Excludes venues closures.

<sup>2</sup> As per note 2 in the Financial Statements.

<sup>3</sup> Before adjustments for customer incentives.

<sup>4</sup> Before exceptional items.

<sup>5</sup> Customers shown on a moving annual total basis.

<sup>6</sup> Following the introduction of 'full' open door at Mecca's Acocks Green venue where it removed the requirement to register all customers, it is unable to accurately track customer numbers, therefore total venues customers only includes registered customers.



## UK DIGITAL

### PERFORMANCE REVIEW



**Colin-Cole Johnson**  
Director of Digital and Cross-Channel Services

Rank's UK digital business continued to grow strongly, with revenue<sup>1</sup> up 15% and operating profit<sup>2</sup> up 63% in the year.

#### Key financial performance indicators

	2016/17	2015/16	Change
Revenue <sup>1</sup> (£m)	111.5	96.7	15%
meccabingo.com	67.6	66.2	2%
grosvenorcasinos.com	43.9	30.5	44%
EBITDA <sup>3</sup> (£m)	27.8	18.8	48%
Operating profit <sup>2</sup> (£m)	22.7	13.9	63%

Both Mecca's and Grosvenor's digital brands grew in the year, with revenue<sup>1</sup> up 2% and 44% respectively. Both brands saw an acceleration in revenue<sup>1</sup> growth in the second half of the year with 4% and 27% up in the second half versus the first half.

Operating profit<sup>2</sup> grew strongly in the year, up 63%, due to higher revenue and good cost control as a result of combining both digital businesses.

Grosvenorcasinos.com's live casino product performed particularly well in the year. A new digital sports offer and a refreshed poker offer were also launched, positively contributing to revenue.

Meccabingo.com's focus on slots and VIPs contributed to a 2% increase in revenue<sup>1</sup>, with growth accelerating in the second half.

Total customers for meccabingo.com reduced in the year, with poorly performing marketing campaigns turned off and a focus on higher value customers.

During the year, the UK digital operations were restructured into a single team, rather than separate brand-led digital teams, and hence the Group now reports on these as a single business segment.

#### Key non-financial performance indicators

	2016/17	2015/16	Change
Customers <sup>4</sup> (000s)	400	404	(1)%
Customer crossover <sup>5</sup>			
Grosvenor Casinos	3.4%	3.0%	0.4ppt
Mecca	10.8%	10.4%	0.4ppt

In line with the Group's strategy to invest in new brands, bellacasino.com, a new slots-led digital casino brand, was soft-launched in July 2017. In addition, luda.com, the complementary digital offer to the new recently opened Luda venue, is due to be launched later in 2017/18.

The Group invested £3.9m in the year in its single account and wallet project and the Group expects to launch the first trial in Grosvenor's Stockport casino during the first half of 2017/18. The project has been very technically complex due to the integration of multiple systems, suppliers and third parties. The project's scope was also extended during the year to include the implementation of a new fraud and payment engine which resulted in a delay to the original launch date.

<sup>1</sup> Before adjustment for customer incentives.

<sup>2</sup> As per note 2 in the Financial Statements.

<sup>3</sup> Before exceptional items.

<sup>4</sup> Customers shown on a moving annual total basis.

<sup>5</sup> Percentage of registered venues customers who are also digital customers.

# ENRACHA

## PERFORMANCE REVIEW



**Albert Zorilla**  
General Manager – Enracha

The Group's Spanish operations, trading under the Enracha brand, had a very strong year, with revenue<sup>1</sup> and operating profit<sup>2</sup> of €38.2m and €7.2m, growing by 7% and 53% respectively over the prior year.

### Key financial performance indicators

	2016/17	2015/16	Change
Revenue <sup>1</sup> (€m)	38.2	35.6	7%
Revenue <sup>1</sup> (£m)	32.8	26.7	23%
EBITDA <sup>3</sup> (£m)	7.7	5.1	51%
Operating profit <sup>2</sup> (€m)	7.2	4.7	53%
Operating profit <sup>2</sup> (£m)	6.2	3.6	72%
Euro like-for-like revenue	7%		

While the continued recovery of the Spanish economy provides a conducive environment, Enracha's reinvention of a modern-day bingo offering which has expanded to include a broad variety of gaming and entertainment offerings, including sports betting, has driven substantial increases in performance across its portfolio of nine clubs, with particular success in its core markets of Barcelona and Madrid.

During the year, following an improvement in the performance of its venues in Sabadell and Girona, the Group reversed previous exceptional impairment charges of £1.8m. Enracha's venue in Andalucía, however, continues to be adversely impacted by unemployment in the region and this has resulted in an exceptional impairment charge of £1.2m.

Enracha continues to develop its product offering with a new sports betting 'arena' opening in Seville in Q2 2017/18 to add to the facilities there.

Importantly, Enracha will also fully launch its digital channel, enracha.es, in Q2 2017/18, offering its 275,000 retail customers a true multi-channel gaming experience.

### Key non-financial performance indicators

	2016/17	2015/16	Change
Customers <sup>5</sup> (000s)	275	274	0%
Customer visits (000s)	1,984	2,020	(2)%
Spend per visit (€)	19.25	17.62	9%
Spend per visit (£)	16.53	13.22	25%
€m	2016/17	2015/16	Change
Bingo	21.1	20.3	4%
Amusement machines	12.7	12.7	0%
Food and drink/other	4.4	2.6	69%
Total	38.2	35.6	7%

1 Before adjustments for customer incentives.

2 As per note 2 in the Financial Statements.

3 Before exceptional items.

4 There were no venue closures or openings in the year, therefore like-for-like is the same as the revenue disclosed above.

5 Customers shown on a moving annual total basis.

# IMPROVING PERFORMANCE



**Clive Jennings**  
Finance Director

	2016/17 £m	2015/16 £m	Change
Revenue	755.1	753.0	0%
Less: Customer incentives	(47.9)	(44.5)	8%
Statutory revenue	707.2	708.5	0%
Operating profit <sup>1</sup>	83.5	82.4	1%
Less: net finance charges	(4.8)	(6.2)	
Less: Unwinding of the discount on disposal provisions	–	0.1	
Less: Other financial gains and losses	0.6	1.1	
Adjusted profit before taxation <sup>2</sup>	79.3	77.4	2%
Profit before interest and taxation	84.5	91.7	(8)%
Net financing charge	(4.8)	(6.2)	(23)%
Taxation	(16.8)	(14.4)	17%
Profit after taxation	62.9	71.1	(12)%
EPS	16.1p	19.1p	(16)%
Adjusted EPS <sup>3</sup>	16.0p	15.4p	4%

For the year ended 30 June 2017, statutory revenue was broadly flat at £707.2m. Strong revenue gains made in the year across the Group's UK digital operations, up 12%, and its Spanish operations, up 23%, were adversely impacted by the Group's challenged UK retail performance, down 3%. Profit before interest and taxation was down 8% following net exceptional income of £9.3m in the prior year, however adjusted profit before taxation was up by 2%.

Following the challenging trading conditions at the end of 2015/16 and beginning of 2016/17, the Group undertook a comprehensive review of its cost base, with a particular focus on labour as its largest cost. This identified areas where front-line labour hours could be reduced, remuneration structures aligned, management roles reduced at club level and a simpler organisational structure adopted. In addition, a review of marketing identified some areas of ineffective spend, particularly the Mecca digital TV campaign in the first half of the year, that were either not repeated or cancelled. The impact of these actions can be seen in note 2(d) where, despite pay increases and the increase in the National Living Wage, employment costs rose by only 2% in the year. Benefits from these actions will continue into 2017/18 as a number of savings were delivered during the second half.

In summary, total operating costs for the year were marginally lower as higher employment and direct costs were offset by lower gaming duties and marketing costs.

The net financing charge for the year fell by 23% to £4.8m as debt levels continued to reduce.

<sup>1</sup> Before exceptionals, as per note 2 in the Financial Statements.

<sup>2</sup> Adjusted profit before taxation is calculated by adjusting profit from continuing operations before taxation to exclude exceptional items, the unwinding of the discount on disposal provisions and other financial gains and losses.

<sup>3</sup> Adjusted EPS is calculated using adjusted profit which excludes discontinued operations, exceptional items, other financial gains or losses, unwinding of the discount in disposal provisions and the related tax effects. Adjusted earnings is one of the business performance measures used internally by management to manage the operations of the business. Management believes that the adjusted earnings measure assists in providing a view of the underlying performance of the business.

## FINANCIAL REVIEW CONTINUED

**Exceptional items**

In order to give a full understanding of the Group's performance and to aid comparability between periods, the Group reports certain items as exceptional to normal trading.

Details of exceptional items can be found in note 4. In the year, the key items were an exceptional cost of £5.2m relating to the underperformance of Grosvenor's Southend and Plymouth casinos; exceptional income of £10.7m following the disposal of Mecca's Bradford site and the associated onerous lease provision release; and an exceptional cost of £8.8m relating to the restructure of the Group's UK operations.

**Earnings per share**

Basic EPS from continuing operations was down 16% at 16.1 pence. Adjusted EPS<sup>1</sup> was up 4% at 16.0 pence. For further details refer to note 9 to the Financial Statements.

**Taxation**

The Group's effective corporation tax rate in 2016/17 was 21.1% (2015/16: 22.5%) based on a tax charge of £16.8m on adjusted profit before taxation. This is in line with the Group's anticipated effective tax rate of 20%-22% for the year. Further details on the taxation charge are provided in note 6.

On a statutory unadjusted basis the Group had an effective tax rate of 21.0% (2015/16: 12.1%), based on a tax charge of £16.8m and total profit for the year of £79.7m.

**Cash tax rate**

In the year ended 30 June 2017 the Group had an effective cash tax rate of 18.5% on adjusted profit (18.3% in the year ended 30 June 2016). The cash tax rate is lower than the effective tax rate mainly as a result of the use of losses within the Group and the timing of tax instalment payments.

**Cash flow and net debt**

Cash generated from continuing operations was up at £116.3m.

As at 30 June 2017, net debt was £12.4m, £28.8m lower than at the previous year end. Net debt comprised £70.0m in bank term loans, £10.5m in fixed rate Yankee Bonds, £8.4m in finance leases and £2.5m in overdrafts, offset by cash at bank and in hand of £79.0m.

In January 2017, the term loan facilities were reduced to £70.0m, from £80.0m, in line with the agreed amortisation profile. The £90.0m of revolving credit facilities was undrawn at the year end.

During the year ending 30 June 2018, the Group's Yankee Bonds will mature (January 2018) and the £70.0m term loan will be amortised further to £50.0m (February 2018). Both are expected to be funded from surplus cash.

The bank facilities require the maintenance of a minimum ratio of earnings before interest, tax, depreciation and amortisation (EBITDA) to net interest payable and a maximum ratio of net debt to EBITDA, tested biannually. The Group has complied with its banking covenants.

The Group's balance sheet continued to strengthen in the year with leverage falling to 0.1 times from 0.3 times at the start of the year.

Further detail regarding the Group's financial risk factors can be found in note 19.

<sup>1</sup> Adjusted EPS is calculated using adjusted profit, which excludes discontinued operations, exceptional items, other financial gains or losses, unwinding of the discount in disposal provisions and the related tax effects. Adjusted earnings is one of the business performance measures used internally by management to manage the operations of the business. Management believes that the adjusted earnings measure assists in providing a view of the underlying performance of the business.

	2016/17	2015/16
<b>Continuing operations</b>		
Cash inflow from operations	128.4	116.4
Net cash payments in respect of provisions and exceptional items	(12.1)	(6.2)
<b>Cash generated from continuing operations</b>	<b>116.3</b>	<b>110.2</b>
Capital expenditure	(42.7)	(52.7)
Fixed asset disposals	–	12.3
Disposal of subsidiary	–	(0.2)
Net interest and tax payments	(17.7)	(12.0)
Payment of disputed tax	–	(21.4)
Dividends paid	(26.2)	(22.7)
Refund on unclaimed dividend	0.2	–
Convertible loan payment	–	(1.1)
Other (including exchange translation)	(1.1)	(0.7)
<b>Cash inflow</b>	<b>28.8</b>	<b>11.7</b>
<b>Opening net debt</b>	<b>(41.2)</b>	<b>(52.9)</b>
<b>Closing net debt</b>	<b>(12.4)</b>	<b>(41.2)</b>

### Capital expenditure

	2016/17	2015/16
Cash:		
<b>Continuing operations</b>		
Grosvenor Casinos – venues	17.1	24.9
Mecca – venues	9.0	9.1
Luda – venues	0.3	–
UK digital	2.3	1.7
Enracha	1.2	3.4
Central	12.8	13.6
<b>Total</b>	<b>42.7</b>	<b>52.7</b>

In relation to Grosvenor's casinos £5.1m was spent on the refurbishment of the Nottingham and Leeds Westgate casinos; £4.7m was spent on the roll-out of a new casino management system, Neon; and the balance of £7.1m related to a variety of small IT projects and minor refurbishments.

Mecca invested £0.9m in refurbishing three venues in the year. New Mecca Max machines were purchased in the year at a capital cost of £2.5m. The introduction of the new £1 coin in the year resulted in £0.9m being spent on replacement cash line coin mechanisms and new coin counting equipment. The balance was spent on general IT and minor refurbishments.

£0.3m was spent on a new bingo concept, Luda, which opened in Walsall on 7 August 2017 at a total capital cost of £0.8m.

UK digital continued to invest in the year with key investments in sports book, live casino, a new Mecca app and the new digital Luda offer.

Within the central investment of £12.8m, key projects were the £3.9m related to the ongoing development of the Group's single account and wallet offer; £3.1m was spent on the Group's move to one new UK corporate office; £2.4m on the development of a new customer management system and lastly £1.4m on new finance and human resource systems.

During 2017/18, the Group is planning to invest between £50m and £55m. The success of any new concepts trialled in the year may lead the Group to invest beyond the stated range.

Total capital committed at 30 June 2017 was £3.3m.

### IFRS 16 – Leases

IFRS 16 Leases represents a significant change, notably for lessees, in how leases are accounted for and reported. The standard will result in most of the Group's lease arrangements being accounted for on balance sheet and will have a material impact on the Group's balance sheet and reported results.

The standard will be effective for the Group for the period beginning 1 July 2019, subject to EU endorsement, and will replace IAS 17 Leases. The full impact of IFRS 16 on the Group is currently being assessed, including the practical application of the principles of the standard to the Group's leases, and it is therefore not yet possible to provide a reasonable estimate of its effect. We expect to provide guidance on the impact of the new standard in our reporting for the year ended 30 June 2018. Further details are provided in note 1 to the Financial Statements.

### IFRS 9 and IFRS 15

IFRS 9 and IFRS 15 will be effective for our next financial reporting period. The Group does not anticipate a material impact on the results or net assets from these standards, which are in issue but not yet effective.



# HOW WE MANAGE RISK

Rank operates a comprehensive risk management methodology which is closely integrated into its management structure to provide clear oversight and governance of the risks which are considered to be material to its business, and to maintain continuous surveillance of its operating environment for emerging risks.

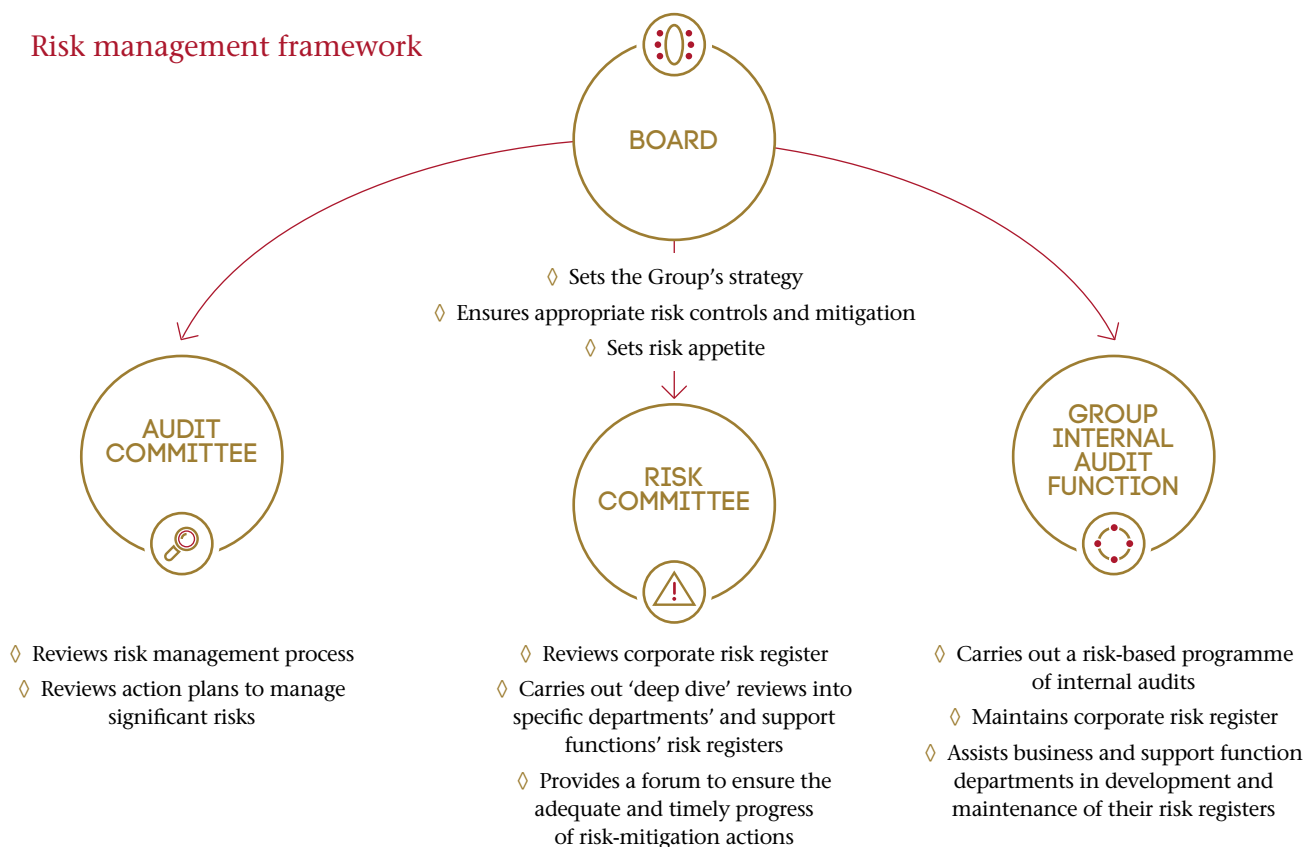
The approach endeavours to ensure that a clear risk appetite is set that balances risk and opportunities to contribute to the achievement of the Group's strategic objectives.

The board has responsibility for the risk framework and for establishing the Group's risk appetite, as well as ensuring that risk controls are built into management's approach to operations. The audit committee holds responsibility for assessing the effectiveness of the risk management systems which are in place and for undertaking an independent review of the risk mitigation plans which have been designed for material risks.

Rank's risk committee (further information can be found on page 60) meets a minimum of eight times per year with a remit to conduct a thorough review of the risk register and to ensure that management is working effectively to identify and manage risks as they arise and on a continuous basis. Working sessions of the committee are held with departmental and divisional management to ensure that risks are being identified in a timely manner, procedural controls over identified risks are effective, and action plans are put into place for emergent risks. This approach ensures that risk is identified in both a 'top-down' and a 'bottom-up' manner from the various management levels of the organisation to give assurance that risk registers are comprehensive.

Group internal audit works in support of the risk committee to help manage risk identification and conduct independent reviews of both the business's risk and its progress in performing the mitigating action plans agreed for any relevant risks, the status of which is reported to the risk committee at each meeting.

## Risk management framework



### Going concern

In adopting the going concern basis for preparing the financial information, the directors have considered the issues impacting the Group during the period as detailed in the operating review on pages 32 to 36 and have reviewed the Group's projected compliance with its banking covenants. Based on the Group's cash flow forecasts and operating budgets, the directors believe that the Group will generate sufficient cash to meet its liabilities as they fall due for at least 12 months from the approval of this report and will comply with its banking covenants.

### Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the directors make the following statement:

The directors have considered the current position of the Group, its prospects and longer-term viability over a period of three years to June 2020. Although longer periods are used when making significant strategic decisions, three years has been used as it is considered the longest period of time over which suitable certainty for key assumptions in the gambling sector can be made.

In making this statement, the directors have performed a robust assessment of the principal risks facing the Group which includes consideration of both financial and non-financial risks that may threaten the business model, future performance, liquidity and solvency of the Group. The principal risks facing The Rank Group Plc and our approach to risk management are set out within our strategic report on page 40 and includes consideration of the impact of each risk, the direction of travel and actions taken to mitigate these risks. The risks considered included adverse regulation, adverse changes to rates of tax, adverse gaming win, loss of licences, wage rise inflation and technological risks (including cyber security).

The Group strategic plan is updated annually for a period of three years and takes into account current trading trends, the impacts from capital projects, existing debt facilities, and expected changes to the regulatory and competitive environment as well as expectations for consumer disposable income. In carrying out the assessment the directors have reviewed and challenged key assumptions within the Group's strategic plan. A number of plausible but severe downside risks, including consideration of possible mitigating actions, have been modelled with particular focus on the potential impact to cash flows, net debt headroom and covenant compliance throughout the period of review.

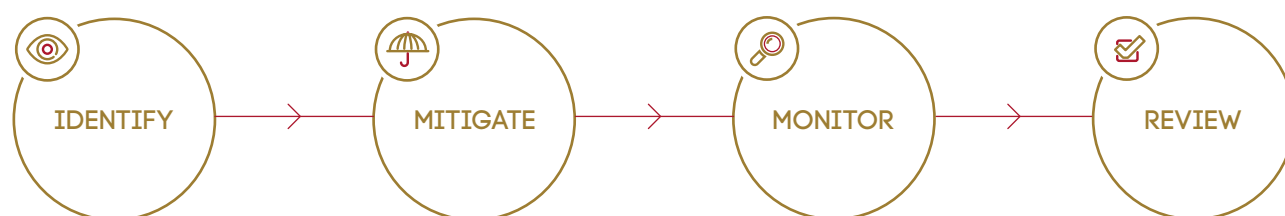
A number of assumptions were included within the assessment, including no material adverse change to:

- (i) gaming legislation
- (ii) the taxation of gambling  
(beyond smaller changes to specific rates)
- (iii) societal attitudes to gambling
- (iv) loss of operating licences required to operate gambling

A 'reverse stress test' was also carried out in order to analyse combinations of the above risks which could bring about insolvency unless capital was raised; in such cases it is anticipated that mitigation measures (including a reduction in dividends and capital expenditure) could be implemented in order to forestall such an outcome.

As a result of this assessment the directors have concluded that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over a three-year period.

## Our risk management process



# ADDRESSING OUR RISKS

## Regulatory, finance, business environment and tax risks



**More information**  
Market review 21

Risk	Impact	Mitigation
<b>Regulation</b>		
The current political and social environment continues to perceive the gambling industry in a concerned light and there is a risk that such negative publicity may lead to adverse changes in regulation and legislation.	<p>◇ <b>Stable</b></p> <p>Regulatory changes could increase the cost of doing business.</p>	Rank works hard to ensure that it actively provides and promotes an environment in which customers can play safely, supported by its long-running 'Keep it Fun' brand which gives customers clear advice and guidance. The company also works with stakeholders, customers and regulators to help public understanding of the gaming offers it provides. Rank also participates in trade bodies' representations to political and regulatory bodies to ensure that such stakeholders clearly understand the positive contribution that its business provides to the economy.



**More information**  
Tax fact file 45

<b>Taxation</b>		
Adverse changes in fiscal regulation continue to be a significant risk, particularly to the digital environment where changes to Remote Gaming Duty will impose this duty on free bets from 1 August 2017.	<p>◇ <b>Stable</b></p> <p>Any increases in the levels of taxation or duties to which we are subject, or the implementation of any new taxes or levies to which we will be subject, could have a material adverse effect on our business, financial condition and results of operations.</p>	Rank continues to actively participate in all relevant consultations by government.



**More information**  
Market review 21  
Chief executive's Q&A 18

<b>Macroeconomic conditions</b>		
Current macroeconomic conditions coupled with political uncertainty over the Brexit negotiations, are causing a reduction in confidence in the UK economy, with an impact on discretionary leisure spending.	<p>△ <b>Increasing</b></p> <p>Macroeconomic conditions directly impact customers' propensity to spend, which could have an adverse effect on revenues. European political uncertainties are fuelling exchange rate weakness which impacts directly on some business costs, reducing profitability.</p>	A rigorous trading analysis and business planning approach ensures that the business is ready to respond to changing conditions in a rapid and flexible manner.

## Operational risk

Risk	Impact	Mitigation
<b>Volatility of gaming win</b>		
<p>The nature of the games played means that win margin can fluctuate in the short term although it will generally perform at a stable average over a longer period.</p> <p>The important VIP sector of the business in both retail and digital contains a small volume of customers who can themselves create volatility in the overall margin given the value of their gaming play.</p> <p>Issues with misfeasance or the accurate management of the games can also affect win margins.</p>	<p>◆ <b>Stable</b></p> <p>Fluctuations in gaming win margin directly affect profitability.</p>	<p>Gaming limits are utilised across all areas of gaming operations to continually manage risk exposure. New systems of table management are being implemented in the casino estate to deliver up-to-the-minute information to aid management to help promptly detect any operational issues which may affect the customer experience or the win margin.</p> <p>The VIP population is closely managed to ensure that strong long-term relationships are developed through dedicated customer handling and specialised incentive schemes. The VIP segment is also monitored by senior management and resources are in place to attract and retain suitable high value players within appropriate limits to mitigate business risk.</p>
<b>Loss of licences or imposition of serious licence conditions</b>		
<p>Rank's gaming licences are fundamental to its operation. In the British venues business there is a requirement to hold an operator's licence from the UK Gambling Commission (the body responsible for regulating commercial gambling in Great Britain) in respect of each of the licensed activities undertaken. Additionally, it is necessary to hold premises licences from the relevant local authority in which each venue is situated, one for gambling activities and one for the sale of alcohol.</p> <p>Our UK customer-facing transactional websites also require an operator's licence from the UK Gambling Commission as well as a licence from the Alderney Gambling Control Commission, the body responsible for the regulation of eGambling in the States of Alderney where our remote gambling operations are based. Our operations in Spain and Belgium are also subject to licensing requirements in the jurisdictions and local areas in which they operate.</p>	<p>◆ <b>Stable</b></p> <p>The loss of licences could have an adverse effect on our business and profitability and prevent us from providing gambling services.</p>	<p>All staff undergo relevant training for their roles to ensure that a good understanding of the objectives of compliance and the obligations of their role is maintained. Rank also has a dedicated compliance function that is independent of the operational teams and exists to provide guidance and support to the operational teams delivering compliant operations, as well as oversight of all relevant matters relating to ensuring full compliance.</p> <p>In addition, there is a separate and independent internal audit function to provide assessments of the compliance of all operating areas on a regular basis.</p>
<b>Single account and wallet project</b>		
<p>The project to deliver an integrated wallet and account experience for customers across the digital and retail casinos is a key strategic enabler for the Company.</p>	<p>◆ <b>Stable</b></p> <p>A failure to deliver key strategic projects impacts on customer loyalty and growth.</p>	<p>Rank has a structured and disciplined project delivery methodology to ensure that critical projects are robustly managed to achieve their deliverables. Key projects are also subject to detailed management oversight from a project board as well as having sponsorship from a senior-level stakeholder. A comprehensive project risk approach is also undertaken within the project, managed by experienced project managers.</p>



### More information

Operating review	32
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### More information

Market review	21
Operating review	32



### More information

Strategy	24
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## PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

## Operational risk continued



More information  
Strategy 24

Risk	Impact	Mitigation
<b>Business continuity and disaster recovery</b>		
The ongoing operation of the business is dependent on the availability of IT systems, staff and physical club venues. Ensuring that serious disruptive events such as fire, flood, pandemic or security incident can be managed to restore operations swiftly and smoothly is of critical importance.	<p>◇ <b>Stable</b></p> <p>Without effective business continuity and disaster recovery plans the business could experience delays in restoring revenue-generating activities or important operational processes such as financial reporting, causing both financial and reputational damage.</p>	<p>Business continuity plans are in place for key operations and are reviewed on a regular basis to ensure that they remain in a state of preparedness.</p> <p>Plans for the recovery of critical IT services are likewise in place and reviewed on an ongoing basis.</p>

## Information risk



More information  
Strategy 24

## Data management, information technology and cyber risk

<b>Data management, information technology and cyber risk</b>		
<p>In the course of its commercial business, and to comply with relevant regulatory and legal requirements, Rank collects and stores a considerable amount of data regarding its customers, staff and suppliers. The robust protection of this data is critical to ensuring that Rank acts responsibly in protecting these stakeholders from risk as well as complying with relevant data protection regulation, including the forthcoming EU General Data Protection Regulations due to come into force in May 2018.</p> <p>In order to deliver commercial improvements and new customer experiences there is an ongoing programme of IT changes, additions and improvements. This continues the Group's significant dependence on strong IT systems and processes, as well as its reliance on a large number of suppliers of IT services and software. The resilient and secure operation of these IT systems is a key requirement, particularly for the operation of the digital business, and any vulnerability to malfunctions, service interruptions or cyber-attacks would pose a risk to the Group's ability to serve its customers.</p>	<p>◇ <b>Stable</b></p> <p>A breach of data security could result in significant reputational damage as well as impacting our customers' trust of the Company, affecting their ongoing relationships and consequently the Company's financial performance. Additionally, potential consequences of a breach could include compensation payments to those affected, or significant fines.</p> <p>Any failure of technology systems could leave the Company unable to render service to customers, impacting on revenue and profitability.</p>	<p>Rank has invested considerable resources in its information technology and cyber-security capabilities and continues to do so, with a team of specialist security resources guiding a comprehensive data and security strategy. A continuous process of risk assessment, identification and remediation is in place alongside robust change management protocols to minimise the risk of interruptions caused by IT changes.</p>



# CONTRIBUTING TO SOCIETY

Rank is a responsible taxpayer, paying tax and contributing to the economies in the territories in which it operates.

## Taxation

In the year 2016/17 the Group's businesses paid £239.0m (2015/16: £259.9m) to tax authorities and local governments in irrecoverable VAT, gambling taxes, corporate tax, employment taxes and local business rates. Rank has provided employment to approximately 10,000 (2015/16: 10,700) people across the Group. The broader impact of Rank's operations, including taxes paid by supplier companies, is harder to quantify but no less significant.

Taxation represents a significant proportion of the Group's total outgoings as can be seen from the chart below.

### Tax strategy

Rank's objective is to ensure that all taxes are correctly accounted for and that tax returns are submitted accurately and on time and that any tax liabilities are paid. Processes and controls are in place to ensure that this objective is achieved.

Rank aims to manage and plan the Group's tax affairs with a view to reducing cash tax payable in each jurisdiction and minimising the Group's overall effective tax rate, whilst at the same time managing and mitigating tax risk. The Group does not intend to

enter into aggressive tax avoidance transactions and any tax planning will revolve around the commercial needs of the business. Rank's tax risks are managed as part of the Group's overall comprehensive risk management methodology, that balances risks and opportunities to achieve strategic objectives. Significant tax matters are discussed at board level and supported by the use of appropriate tax advisors.

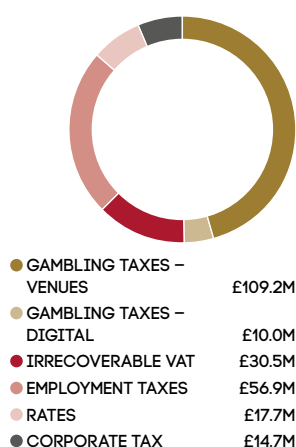
During the year, Rank has fully complied with statutory tax obligations, maintaining good relationships with tax authorities in all jurisdictions in which it operates. The Group meets regularly with HMRC (and other tax authorities as appropriate) to explain business issues and to discuss future, current and past tax issues.

In the event that the Group disagrees with a tax authority about the correct treatment of a tax issue, the Group aims to reach resolution as quickly as possible whilst also defending its position robustly with a view to protecting shareholder value and taking into account the cost of defending audits or assessments in relation to the amounts of tax at stake. Rank will consider litigation provided that the grounds of appeal stand a good chance of success that there is sufficient tax at stake to warrant the cost of litigation.

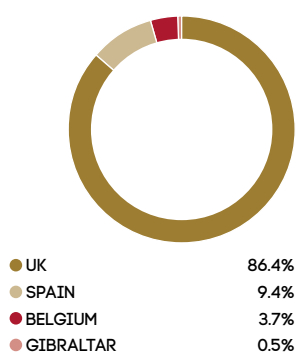
In the UK, corporate tax filing positions are agreed for years up to and including 2015 with the exception of one outstanding issue relating to 2010. The tax in relation to this issue has been paid and the matter is currently under appeal at First Tier Tribunal.

The Group's tax strategy is reviewed and approved by the board on an annual basis.

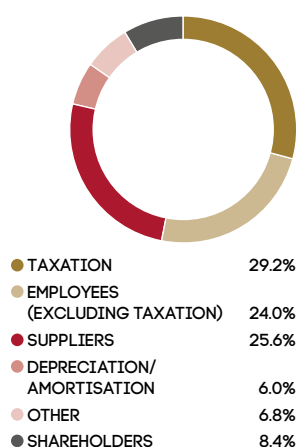
### TAX PAYMENTS BY TYPE OF TAX



### TAX CONTRIBUTION BY TERRITORY



### TOTAL OUTGOINGS



## TAX FACT FILE CONTINUED

**Effective tax rate**

The Group's effective corporation tax rate in 2016/17 was 21.1% (2015/16: 22.5%) based on a tax charge of £16.8m on adjusted profit before taxation. This is in line with the Group's anticipated effective tax rate of 20%-22% for the year. Further details of the taxation charge are provided in note 6.

**Cash tax rate**

In the year ended 30 June 2017 the Group had an effective cash tax rate of 18.5% on adjusted profit (18.3% in the year ended 30 June 2016). The cash tax rate is lower than the effective tax rate mainly as a result of the use of losses within the Group and the timing of tax instalment payments. In 2015/16 the Group also had an exceptional cash tax payment of £21.4m.

**Future tax rates**

The effective corporation tax rate for 2017/18 is expected to be 20%-22%, being 1%-3% above the UK statutory tax rate as a result of some overseas profits being taxed at higher rates and depreciation of assets that do not qualify for capital allowances.

The Group is expected to have a cash tax rate of approximately 19%-21% in the year ended 30 June 2018.

**Gambling taxes****United Kingdom**

Online gaming became subject to tax on a place of consumption basis from 1 December 2014. The majority of the Group's digital revenue is generated from UK customers, which is subject to remote gaming duty at 15%. During the year HMRC conducted a consultation into proposed changes which were intended to tax freeplays provided to customers as either a retention tool or sign-up incentive. The proposal was to introduce a tax charge on all freeplays by treating amounts given to customers as 'stake' with effect from 1 August 2017. Rank responded to HMRC's consultation and the new rules take into account comments made by Rank and other operators so that only the first use of freeplays is subject to tax. The Group anticipates that the changes could have a net cost of around £3.3m although the business will seek to minimise the impact of this change by looking at alternative ways of acquiring and incentivising customers. The new rules were not included in the Finance Act 2017, but it is anticipated that the implementation date will remain 1 August 2017 when the rules are enacted in the Finance Bill (No.2) 2017.

During 2015/16 and 2016/17, Rank submitted repayment claims totalling £6.8m to protect its position in relation to gaming duty on free bet vouchers or casino chips provided by the casino to the player free of charge. This follows a judgment at the Upper Tier Tribunal for another casino operator, which stated that these items should not be included in the calculation of Gross Gaming Yield for gaming duty purposes. HMRC has appealed the finding of the Upper Tier Tribunal and the case is expected to be heard at the Court of Appeal in January 2018. Repayment of Rank's claims will depend on the outcome at the Court of Appeal. These claims have not been recognised in the profit and loss account and will be discussed further with HMRC when the Court of Appeal judgment is available.

In 2015/16, the Group trialled an improvement to Rank's electronic roulette offering across the casino estate where live or automated wheels operated in one casino may be beamed to electronic roulette terminals located in another casino (referred to as Get Set Roulette). This was driven by commercial factors which include improved customer service by being able to offer dealer-operated tables 24 hours a day, consistency of play for customers, more optimal use of licenced gaming space across the casino estate and labour-saving costs through one dealer being able to cover more than one casino. Get Set Roulette has proved popular with customers and has been rolled out more widely during 2016/17. From a gaming duty perspective, the bet is accepted by and any winnings are paid out of the casino where the roulette wheel is located (the 'banker' casino). Rank has received advice which indicates that income should be recognised in the 'banker' casino and that duty is payable at the relevant rate for that casino. Currently the gaming duty liability varies from 15% to 50% across the casino estate depending on the level of activity in the respective premises. HMRC does not agree with Rank's tax analysis and Rank is in the early stages of discussions with HMRC. As at 30 June 2017, the amount under dispute was approximately £1m (or 1% of the Group's total gaming duty liability) and has been fully provided for.

Rank considers that the current tax regime for gaming in Great Britain remains unduly complex, resulting in an inconsistent tax treatment for some products offered to customers. Gaming duty in casinos ranges from 15% to 50%, whereas similar games played online are subject to remote gaming duty at 15%. Rank promotes multi-channel gaming to its customers and is in favour of a simpler unified tax regime that encourages sustained growth and investment.

### Spain

In 2011, the Spanish government invited online operators to apply for remote gaming licences and introduced tax changes which levied gaming duty on a place of consumption basis. Remote gaming duty was introduced at a rate of 25% of gross gambling revenue (GGR). This differs from the taxation of land-based businesses, which although taxed at similar rates (of between 5% and 25%), are taxed on stakes received rather than revenue generated. Enracha's digital products will relaunch on a new platform in the first half of 2017/18.

### Belgium

The Belgian government introduced a taxation and licensing framework for online gaming companies in 2011. Companies may only apply for an online gaming licence in Belgium if they already hold a land-based gaming licence. Rank currently holds two digital licences that it allows a third-party operator to use in exchange for a revenue share. Online gaming in Belgium is subject to remote gaming duty at a rate of 11% and from 1 August 2016 has also been subject to VAT at 21%. This differs from land-based gaming, which remains exempt from VAT. This has resulted in lower income from the revenue-share arrangements.

### VAT

As gambling is exempt from VAT in the UK, Rank pays significant amounts of irrecoverable VAT (£29.5m in the UK in 2016/17 and £24.7m in the UK in 2015/16). Rank has been working with HMRC since 2013 to try to agree a method for recovering VAT in its retail casino business which relates to both taxable and exempt sales (residual VAT) which reflects the way in which input VAT is used in the business. The amount of VAT in dispute is £3.1m up to 30 June 2017. Of this, £2.6m was paid in the year with an accrual held for the balance. Rank has appealed assessments received and will continue to try to reach agreement with HMRC on a fair and reasonable recovery method.

The Supreme Court decision in the amusement machines case for October 2002 to September 2005 has not altered Rank's appraisal of its chances of success in its remaining amusement machine claims. Rank believes that it has a reasonable chance of success in one or both of the claims below, although as is the case with any litigation, there is a risk that the courts will take a different view.

In addition to the amusement machine claims there is a claim outstanding in relation to VAT on bingo for periods which HMRC regard as out of time. Rank is considering entering into litigation at the First Tier Tribunal in relation to this matter.

### Compound interest

At present, HMRC accepts that taxpayers are entitled to receive interest on repayments caused by HMRC's error. Such interest is calculated on a simple basis. However, there is ongoing litigation that such interest should be calculated on a compound basis. The UK High Court (having been referred back from the CJEU) found in favour of the litigant and HMRC appealed the judgment. The Court of Appeal released its judgment in May 2015, in which it agreed with the High Court. The Supreme Court heard the case in July 2017 and a judgment is awaited.

Rank has protected its position by submitting a claim for compound interest. It is possible that Rank may be required to undertake separate litigation even if the litigant is ultimately successful as HMRC considers that the existing judgments are not clear enough or general enough to be applied to other claimants. Rank will pursue its own claims when the Supreme Court judgment is available.

### VAT claims

The following amusement machine VAT claims are outstanding:

	VAT (£m)	Status
October 2002 to September 2005	26.4	Found in favour of HMRC at the Supreme Court in July 2015. Remitted back to the First Tier Tribunal to consider similarities between amusement machines and fixed odds betting terminals. Tribunal hearing expected May 2018.
April 2006 to January 2013	80.4	Rank is stood behind the litigation of another taxpayer. This case is expected to be heard by the First Tier Tribunal in winter 2017. Depending on the outcome of that litigation further litigation may be required by Rank. The issue is whether amusement machines were similar to fixed odds betting terminals.

## TAX FACT FILE CONTINUED

## UK tax regime

	Gaming duty/Gross profits tax
<b>Mecca – venues</b>	
Category B3 gaming machines	20%
Category C gaming machines	20%
Category D gaming machines	5%
Main stage bingo	10%
Interval bingo	10%
<b>Grosvenor Casinos – venues</b>	
Casino games and poker	15% – £0 to £2,423.5k
(tax on gaming win in a six-month period)	20% – £2,423.5k to £4,094k
	30% – £4,094k to £7,019.5k
	40% – £7,019.5k to £13,195k
	50% – over £13,195k
Category B1 gaming machines	20%
<b>UK digital</b>	
Meccabingo.com <sup>1</sup>	15%
grosvenorcasinos.com <sup>1</sup>	15%

<sup>1</sup> Rank's online business is based offshore (Alderney, Channel Islands) and has been subject to UK remote gaming duty with effect from 1 December 2014.

## Spanish tax regime

	Bingo duty <sup>2</sup>	Remote gaming duty	Licence (annual average)
Bingo tax set by region	5% to 25%	–	–
Category B2/3 gaming machines	–	–	€3,650
Multi-post electronics	–	–	€10,600
enracha.es	–	25%	–

<sup>2</sup> Calculated as a percentage of stake.

## Belgian tax regime

	Gaming duty
Table games	33% – €0 to €865k
	44% – over €865k
Electronic roulette/amusement machines	20% – €0 to €1,200k
	25% – €1,200k to €2,450k
	30% – €2,450k to €3,700k
	35% – €3,700k to €6,150k
	40% – €6,150k to €8,650k
	45% – €8,650k to €12,350k
	50% – over €12,350k

## Henry Birch

Chief Executive

16 August 2017

## Clive Jennings

Finance Director

16 August 2017

# GOVERNANCE

## BOARD OF DIRECTORS

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*p50*

## CORPORATE GOVERNANCE

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*p52*

## DIRECTORS' REMUNERATION REPORT

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*p70*

## DIRECTORS' REPORT

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*p85*

## DIRECTORS' RESPONSIBILITIES

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*p88*



## BOARD OF DIRECTORS

**1. Ian Burke**

Chairman

*Appointment* March 2006*Age* 61 years old*Experience*

Ian has spent most of his career in the leisure industry, initially in bingo clubs, then hotels and health and fitness clubs. He was chief executive of Rank from March 2006 to May 2014, of the Holmes Place Group from July 2003 to February 2006 and of Thistle Hotels plc from May 1998 to May 2003. He also held various roles with Bass plc between 1990 and 1998, including managing director of Gala Clubs and managing director of Holiday Inns. Ian was executive chairman of Findel plc from January to April 2017.

*Other roles*

Ian is non-executive chairman of Findel plc.

*Committee membership*

Nominations, Finance and Responsible Gambling.

**2. Henry Birch**

Chief Executive

*Appointment* May 2014*Age* 48 years old*Experience*

Henry has more than 20 years of experience in the betting and gaming sector and in online and broadcast media. From July 2013 to May 2014 Henry was a non-executive director of the AIM-listed CFD trading platform operator, PLUS 500 PLC. From October 2008 to November 2012 he was the chief executive officer of William Hill Online, the joint venture between William Hill plc and Playtech plc, which managed William Hill's online business. Prior to working at William Hill Online, Henry was the chief executive officer of Leisure & Gaming plc, an AIM-listed company that owned and operated a number of

online and retail betting and gaming subsidiaries. Prior to working at Leisure & Gaming plc, Henry was the chief operating officer of Bettingcorp Ltd, an Israeli company focused on the development and operation of online and interactive TV gaming platforms. Prior to working in the gambling industry, he held management roles at TimeWarner, Turner Broadcasting and Riffage, an early digital music operator based in Silicon Valley, and started his career working in the House of Commons.

**3. Clive Jennings**

Finance Director

*Appointment* July 2011*Age* 56 years old*Experience*

Clive was previously Rank's group financial controller prior to which he was the financial controller of Rank's gaming division. He held senior finance positions in several other companies prior to joining Rank in July 2000. He is a chartered accountant.

**4. Chris Bell**

Senior Independent Director

*Appointment* June 2015*Age* 59 years old*Experience*

Chris has over 20 years' experience in the betting and gaming industry. He joined the Hilton Group in 1991 and became managing director of its Ladbrokes Worldwide business in 1994. He joined the board of Hilton Group Plc in 2000 and, following the disposal of its hotels division, became chief executive when it was renamed Ladbrokes Plc where he remained until May 2010. Prior to joining Hilton Group, Chris held several senior positions at Allied Lyons for 12 years. Chris was senior independent director of Quintain Estates & Development plc from September 2010 to September 2015, a non-executive director of Spirit

Pub Company plc from August 2011 to June 2015 and chairman of The GAME Group plc from January 2003 to March 2012. He was also a trustee of Northern Racing College from June 2014 to March 2017.

*Other roles*

Chris is non-executive chairman of two AIM-listed companies: XLMedia PLC and TechFinancials. He is also a non-executive director of The Royal Airforce Charitable Trust Enterprises.

*Committee membership*

Audit, Nominations and Responsible Gambling.

**5. Steven Esom**

Non-executive Director

*Appointment* March 2016*Age* 56 years old*Experience*

Steven has extensive commercial experience gained within several consumer-focused multi-site retail businesses. He had a 12-year career at Waitrose, the last five years of which were as managing director, and he has held several senior and non-executive positions within the food sector. He was chairman of The Ice Organisation Limited from September 2011 to August 2015 and a non-executive director of The Carphone Warehouse Group plc from September 2005 to July 2009 and of Ocado Limited from October 2000 to February 2004.

*Other roles*

Steven is the senior independent director of the FTSE-250-listed food producer Cranswick plc, and chairs its remuneration committee. He is non-executive chairman of The Advantage Travel Partnership.

*Committee membership*

Remuneration (chair), Audit and Nominations.



## 6. Susan Hooper

Non-executive Director

*Appointment* September 2015

*Age* 57 years old

### *Experience*

Susan has extensive experience gained within large consumer-facing businesses combined with broad commercial non-executive experience. She was managing director of British Gas Residential Services from January to October 2014 and chief executive of Acromas Group's travel division from March 2009 to November 2013. Prior to 2009 she held senior roles at Royal Caribbean International, Avis Europe, PepsiCo International, McKinsey & Co, and Saatchi & Saatchi. She has also served as a non-executive director of Whitbread PLC (September 2011 to January 2014); First Choice Holidays Limited (April 2005 to September 2007); RSA Insurance Group plc (August 2001 to March 2004) and Courtaulds Textiles Limited (October 1999 to June 2000).

### *Other roles*

Susan is a non-executive board member of the Department for Exiting the European Union (DEEU) and also serves on its audit and risk assurance committee. She is a non-executive director of Wizz Air Holdings Plc and of Affinity Water Limited where she also serves as chairman of the remuneration committee. She is a member of the International Advisory Board of LUISS Business School in Rome.

### *Committee membership*

Remuneration, Nominations and Responsible Gambling.

## 7. The Rt. Hon. the Earl of Kilmorey, PC

Non-executive Director

*Appointment* May 2012

*Age* 75 years old

### *Experience*

Lord Kilmorey has diverse experience in commerce and industry and in government. He was Minister of Trade

from 1992 to 1995 and Northern Ireland Minister from 1985 to 1992. He was non-executive chairman of Tetra Strategy Limited, a political consultancy, from May 2009 to August 2017 and of Rose Petroleum plc from July 2009 to December 2015. He was a non-executive director of Avon Rubber p.l.c. from January 2007 to February 2013 (including five years as chairman). He was also a director of The General Electric Company PLC from October 1995 to August 1997 and of various Dyson group companies from October 1995 to February 2012 (including four years as deputy chairman). He was chairman of Biocompatibles International plc from July 2000 to June 2006 and of The Heart Hospital Limited from November 1998 to November 2001.

### *Other roles*

Lord Kilmorey is a director of Halsbury Holmes Limited and of Smarta Enterprises Limited, the UK's largest online resource for small businesses. He is also a non-executive director of NEC Europe Ltd, a leading internet services and systems solutions provider.

### *Committee membership*

Responsible Gambling (chair).

## 8. Owen O'Donnell

Non-executive Director

*Appointment* September 2008

*Age* 50 years old

### *Experience*

Owen's background is in online businesses including online media and online gaming. He is also a chartered accountant. He was a non-executive director of Plumbee Limited from May 2012 to January 2015, finance director at Ovo Energy from July 2012 to September 2014 and non-executive chairman of fanduel.com, the online fantasy sports site, from November 2009 to December 2011. Owen also held senior finance positions at Joost, King.com, Betfair and FT.com between 1999 and 2010 and was

director of finance and performance measurement of Pearson plc from 2002 to 2003.

### *Other roles*

Owen is non-executive chairman of Find a Player Limited, a start-up sports network business, and of Brighter World Energy, a start-up energy retail business.

### *Committee membership*

Audit (chair), Remuneration and Nominations.

## 9. Alex Thursby

Non-executive Director

*Appointment* August 2017

*Age* 57 years old

### *Experience*

Alex has 30 years of experience within the banking sector. He was chief executive of National Bank of Abu Dhabi from 2013 to 2016 and he held senior roles at Australia and New Zealand Banking Group from 2007 to 2013 and at Standard Chartered Bank from 1987 to 2007. From 2008 to 2013 he was a non-independent non-executive director of the Bursa-Malaysia-listed AMMB Holdings Berhad, part of the AmBank Group, one of the largest banking groups in Malaysia.

### *Other roles*

Alex is an independent non-executive board member of the divisional board of Barclays International.

### *Committee membership*

Audit, Remuneration and Nominations.

## 10. Frances Bingham

Company Secretary

*Appointment* May 2008

*Age* 52 years old

### *Experience*

For eight years Frances was company secretary and legal director of the multi-national health and fitness group, Holmes Place Group, and prior to that she was a solicitor in private practice.

# CHAIRMAN'S GOVERNANCE INTRODUCTION



**Ian Burke**  
Chairman

## Dear shareholder

I am pleased to present this year's directors' and corporate governance report. We are reporting this year against the April 2016 version of the UK Corporate Governance Code (the 'Code'). We have been in compliance with the Code throughout the year under review.

Our responsibilities as a board include setting the Company's strategic aims, providing the leadership to put them into effect and supervising the management of the business. The aim of this report is to explain how we have done that.

### Culture and consumer protection

Corporate culture has continued to be an area of focus for the board this year, as has oversight of improvements to Rank's social responsibility and anti-money-laundering controls across its businesses. We continue to aim for the highest standards, in keeping with our commitment to upholding the licensing objectives laid down in the Gambling Act 2005. During the year, the chairman, chief executive and social responsibility policy manager of the UK Gambling Commission (UKGC) joined a Rank board meeting for a discussion in order that:

- ♦ the Rank board might deepen its understanding of what the UKGC was trying to achieve and for the UKGC to understand the issues that Rank was trying to address;
- ♦ the board should understand how Rank might contribute to the UKGC's strategy; and
- ♦ the UKGC might understand how the board was using the UKGC's new regulatory tool, the annual assurance statement process, to assist and deepen its understanding of responsible gambling.

Application of our social responsibility and anti-money-laundering controls remains a challenge across some of our businesses and so we will continue to focus on the delivery of the cultural change across Rank that is required to ensure the effective delivery of consumer protection.

Lord Kilmorey continues to chair our board-level responsible gambling committee and his report can be found on page 68.

### Diversity

During the year, the board and/or its committees have received briefings on several diversity-related issues, including:

- ♦ the Hampton-Alexander Review on improving gender balance in FTSE-company leadership;
- ♦ the Parker Report into ethnic diversity on UK boards; and
- ♦ the McGregor-Smith Review into race in the workplace.

We welcome the findings of the Hampton-Alexander Review and the Parker Report and we intend to put in place actions to implement the recommendations. We have a target of 33% of women on our board and we have set a target of 33% of women on the executive committee and of direct reports to the executive committee by 2020. We also aim to have at least one director of colour on our board by 2024. As at 30 June 2017, our data stood at:

Rank in June 2017	Female	BAME <sup>1</sup>
Plc board	12.5%	0%
Executive committee (inc. executive Plc directors)	22.2%	0%
Direct reports to executive committee/ heads of function	22.9%	3.6%

<sup>1</sup> Black, Asian and minority ethnic.

### Board succession

In anticipation of Owen O'Donnell, the chair of our audit committee, completing nine years of service on 11 September 2017 and therefore no longer being independent, the board and its nominations committee have been focusing on succession planning. The report of the nominations committee can be found on page 65.

On 28 June 2017, we announced the appointment of Alex Thursby as a non-executive director with effect from 1 August 2017. Mr Thursby serves on the board's audit, remuneration and nominations committees and will chair the board's audit committee with effect from the conclusion of the forthcoming annual general meeting when Mr O'Donnell will retire. Mr Thursby has had a long career in banking and has extensive experience in compliance and risk governance as well as experience of developing new, and transforming existing, businesses with the use of technology platforms.

I would like to take this opportunity to extend my gratitude to all my board colleagues for their contributions this year. In particular, I would like to thank Owen O'Donnell for his valuable contribution as a director during his nine-year tenure on the board and his excellent chairmanship of the audit committee over the last three years.

### Leadership and effectiveness

During the period under review, the leadership of our two retail businesses underwent change and, following on from last year's evaluation, the board has been more engaged with the development of the leadership and strategies of those businesses. In June 2017, the contribution and effectiveness of our directors, both individually and collectively, underwent an internal evaluation. Areas for development included identifying opportunities to help management drive more value from the more challenged retail elements of the Group's businesses, and improved depth of sector knowledge.

### Governance – key features

In the table below I summarise the key features of governance at Rank and indicate where more information can be found in the report.

### Conclusion

As a board, we recognise that it is imperative to have in place a strong governance framework which supports the Group's strategic objectives and promotes the development of corporate culture and diversity across the business. I would like to take this opportunity to thank our colleagues for their commitment to the business during the year.

**Ian Burke**

Chairman

16 August 2017

Page n°		
<b>Independence</b>	Over half of our board is made up of independent non-executive directors.	56
<b>Senior independent director</b>	Our senior independent director is Chris Bell.	56
<b>Composition, competence and experience</b>	The composition of the board and all its committees complies with the Code. In particular, the Code's requirements for recent and relevant financial experience and sector experience and the DTR's requirement for competence in accounting or auditing and sector competence are complied with.	67
<b>Responsibilities and election</b>	There are clear terms of reference for the board and its committees and there is a clear separation of duties between the chairman and chief executive roles. We require all directors to stand for re-election annually.	54
<b>Attendance</b>	The directors have all attended an acceptable number of board and committee meetings.	55
<b>Evaluation</b>	An internal performance evaluation of the board and its committees was undertaken during the year. The last external evaluation was undertaken in 2015 and another will be undertaken in 2018.	57
<b>Internal audit</b>	We have an internal audit function, details of which can be found in the audit committee report.	59
<b>External audit</b>	Rank's external audit was most recently tendered during 2009, resulting in a change of external auditors and the appointment of EY at the Company's annual general meeting on 22 April 2010. In June 2017, the audit committee agreed that it would not be appropriate to decide on the timing of the audit tender until the committee chairman's successor was in place.	64
<b>Non-audit work policy</b>	We have a policy for the award of non-audit work performed by our external auditor and we have disclosed the non-audit work undertaken.	113
<b>Remuneration</b>	During the year, the board and its remuneration committee have received briefings on external factors influencing executive pay and are mindful of the need to curb excessive remuneration, to align incentives with the long-term interests of the Company and shareholders and to increase transparency.	70-84

## Corporate governance statement

### Introduction

The principal governance rules applying to UK companies listed on the London Stock Exchange are contained in the UK Corporate Governance Code, revised by the Financial Reporting Council in April 2016 (the 'Code').

This corporate governance statement covers the following areas:

- ◇ structure and role of the board and its committees;
- ◇ board effectiveness;
- ◇ audit committee;
- ◇ nominations committee;
- ◇ finance committee; and
- ◇ responsible gambling committee.

The directors have assessed the prospects of the Company over a three-year period. Further details of the viability assessment are provided on page 41.

The report of the remuneration committee is set out separately in the directors' remuneration report on pages 70 to 84.

### Compliance with the Code

The board confirms that it has complied with the provisions of the Code throughout the year ended 30 June 2017.

This corporate governance statement forms part of the directors' report and accordingly is approved by the board and signed on its behalf by the company secretary. Certain parts of this corporate governance statement have been reviewed by the Company's auditors, Ernst & Young LLP, for compliance with the Code, to the extent required.

In this corporate governance statement the following abbreviations are used:

FCA – Financial Conduct Authority

'Guoco' – Guoco Group Limited

'Hong Leong' – Hong Leong Company (Malaysia) Berhad.

### Structure and role of the board and its committees

The board is collectively responsible for the long-term success of the Company. The board's main responsibilities and the key actions carried out during the year are set out below. The board delegates certain matters to committees and delegates the detailed implementation of matters approved by the board and the day-to-day operational aspects of the business to the executive directors.

### Composition of the board committees

#### Audit committee

Owen O'Donnell (chairman), Chris Bell, Steven Esom and Alex Thursby.

#### Nominations committee

Ian Burke (chairman), Chris Bell, Steven Esom, Susan Hooper, Lord Kilmorey, Owen O'Donnell and Alex Thursby.

#### Remuneration committee

Steven Esom (chairman), Susan Hooper, Owen O'Donnell and Alex Thursby.

#### Responsible gambling committee

Lord Kilmorey (chairman), Chris Bell, Henry Birch, Ian Burke and Susan Hooper.

#### Finance committee

Ian Burke (chairman), Henry Birch and Clive Jennings.

## Code main principles

### Leadership

#### The role of the board

##### Board composition

As at the date of this report, the board consists of:

- ◇ a non-executive chairman;
- ◇ six independent non-executive directors;
- ◇ two executive directors – the chief executive and the finance director.

The names and biographies of all directors are published on pages 50 to 51.

##### Key board responsibilities

The board is responsible for:

- ◇ Group strategy, objectives and policies;
- ◇ internal controls and risk management;
- ◇ general and long-term progress of the Group within the political, economic, environmental and social setting of the day;
- ◇ sound governance, health and safety, and environmental policies;
- ◇ financial performance, annual budgets and business plans;
- ◇ board and company secretary appointments;
- ◇ major capital expenditure, acquisitions and divestments;
- ◇ senior management structure, remuneration and succession;
- ◇ annual and half-year financial results and interim management statements;
- ◇ responsible gambling and ethical behaviour;
- ◇ board committees and their terms of reference; and
- ◇ investor relations.

Specific responsibilities are delegated to our five board committees – audit, remuneration, nominations, finance and responsible gambling. They report to the board and operate within defined terms of reference, which can be obtained from our website at [www.rank.com/en/investors/corporate-governance/terms-of-reference.html](http://www.rank.com/en/investors/corporate-governance/terms-of-reference.html), or by writing to the company secretary.

The executive directors conduct the Company's business within clearly defined limits delegated by the board and subject to those matters reserved to the board.



### Board meetings

Board meetings allow for regular and frank discussion of strategy, trading, financial performance, regulatory affairs, responsible gambling and risk management.

During the period under review, the board's committees also met regularly to discharge their duties.

In exceptional circumstances when a director is unable to attend a meeting, his or her comments on briefing papers are given in advance to the relevant chairman.

### 2016/17 activity

The graphic below provides an overview of the board's allocation of agenda time during the year, based on key areas of review at the meetings convened.

### BOARD ACTIVITY IN 2016/17



### Insurance and indemnity

The Company has arranged insurance cover and indemnifies directors in respect of legal action against them to the extent permitted by law. Neither the insurance nor the indemnity applies in situations where a director has acted fraudulently or dishonestly.

### Conflicts of interest

The directors have a statutory duty to avoid conflicts of interest. In accordance with the Company's articles of association, it has adopted a policy and procedure for managing and, if appropriate, authorising actual or potential conflicts of interest.

Directors are required to disclose any other new appointments before agreeing to take them on, so that any conflicts of interest can be identified and addressed.

The board also assesses conflicts of interest before making any new appointments.

### Division of responsibilities

There is a clear division of responsibilities between the chairman and chief executive.

### Chairman

The chairman is charged to:

- ◇ manage the business of the board, preside over meetings and seek prompt and appropriate decisions;
- ◇ work with the company secretary to ensure directors receive accurate and clear information for the proper execution of their duties;
- ◇ oversee effective communication with shareholders;
- ◇ keep the Group's progress and development under review;
- ◇ ensure the chief executive's Group objectives, policies and strategies are consistent with lasting shareholder value;
- ◇ evaluate the board and its committees; and
- ◇ ensure the Group's governance is effective and in line with best practice.

### Board and committee meeting attendance

The directors' attendance at board meetings during the year is recorded in the table below. It shows the number of board meetings attended by each director against the number of board meetings that director was eligible to attend.

Name	Full board	Audit committee	Nominations committee	Finance committee	Remuneration committee	Responsible gambling committee
Chris Bell	17/17	4/4	2/2	n/a	n/a	4/4
Henry Birch	17/17	n/a	2/2	10/10	n/a	4/4
Ian Burke	17/17	n/a	2/2	10/10	n/a	4/4
Steven Esom	17/17	4/4	2/2	n/a	5/5	n/a
Susan Hooper	17/17	n/a	2/2	n/a	5/5	0/0 <sup>5</sup>
Clive Jennings	17/17	n/a	n/a	10/10	n/a	n/a
Lord Kilmorey	15/17 <sup>2</sup>	n/a	1/2 <sup>4</sup>	n/a	n/a	4/4
Owen O'Donnell	16/17 <sup>3</sup>	4/4	2/2	n/a	5/5	n/a
Alex Thursby <sup>1</sup>	0/0	0/0	0/0	n/a	0/0	n/a

1 Alex Thursby joined the board on 1 August 2017.

2 Unable to attend two meetings: one due to unavoidable personal circumstances and one due to one meeting being called at short notice.

3 Unable to attend due to meeting being called at short notice.

4 Unable to attend due to another unavoidable commitment.

5 Susan Hooper joined the responsible gambling committee on 1 July 2017.

## CORPORATE GOVERNANCE CONTINUED

*Chief executive*

The chief executive's role is to:

- ♦ manage and promote the Group's long-term profitable development;
- ♦ exercise stewardship of intellectual property, human and financial resources and ensure that the relevant policies are implemented;
- ♦ plan strategy and prepare objectives and policies for board approval;
- ♦ ensure action is taken to achieve strategies, objectives and policies, as approved by the board;
- ♦ ensure objectives, policies and strategies are adopted for each Group business, that appropriate budgets are set for them individually, that their performance is monitored, and that guidance is given when needed;
- ♦ take responsibility for Group health and safety policies;
- ♦ make sure the Group complies with all relevant legislation; and
- ♦ lead ongoing communication with employees.

*Non-executive directors*

The directors are satisfied that there are proper procedures in place to ensure that:

- ♦ they are receiving accurate and clear information for the proper execution of their duties;
- ♦ the Group's objectives, policies and strategies are consistent with enhancing shareholder value;
- ♦ they are able to keep the Group's progress and development under review;
- ♦ they have an opportunity to challenge constructively, and help develop, proposals on strategy;
- ♦ there are effective communications with all shareholders; and
- ♦ the Group's governance is effective.

*Senior independent director*

As senior independent director since 1 June 2015, Chris Bell is available to talk with shareholders who have questions or concerns. Led by the senior independent director, during the year the non-executive directors also met and reviewed the chairman's performance without him being present.

**Effectiveness*****The composition of the board****Size and structure*

The nominations committee keeps the board's size and structure under review. The nominations committee is of the view that the board is well balanced, providing a collective competence to suit the Group's developing needs and an appropriate blend of executive and non-executive skill. We believe that all our directors are suitably qualified to help steer and challenge Group strategy.

More than half of our board excluding the chairman are independent.

Name	Independent	Appointed
<b>Chairman</b>		
Ian Burke <sup>1</sup>	n/a	March 2006
<b>Executive</b>		
Henry Birch	no	May 2014
Clive Jennings	no	July 2011
<b>Non-executive</b>		
Chris Bell	yes	June 2015
Steven Esom	yes	March 2016
Susan Hooper	yes	September 2015
Lord Kilmorey	yes	May 2012
Owen O'Donnell	yes	September 2008
Alex Thursby	yes	August 2017

<sup>1</sup> Ian Burke was originally appointed to the board on 6 March 2006. He resigned from the board on 28 June 2011 and was reappointed on 3 July 2011. On 15 July 2011 he became executive chairman. On 6 May 2014 he resigned his role as chief executive and became non-executive chairman with effect from that date.

*Committees*

The composition and chairmanship of our board committees are considered annually and have been considered during the period under review.

### **Commitment**

The principal terms and conditions of appointment for each director are set out on pages 75 and 76, and their interests in Rank shares are detailed on page 82. All non-executive directors are required to disclose their other significant commitments, both before appointment and following subsequent changes, so that the board can satisfy itself that each of the directors has sufficient time to allocate to the Company to discharge their responsibilities effectively.

During the year the chairman became chairman of the FTSE SmallCap multi-channel retailer, Findel plc. Henry Birch is a trustee of GambleAware (formerly Responsible Gambling Trust) and Clive Jennings does not currently hold any directorships outside the Group. Executive Directors are not permitted to take up non-executive directorships outside the Group.

### **Development**

#### **Induction**

During the period under review, no new non-executive directors were appointed to the board. Alex Thursby was appointed to the board as a non-executive director effective from 1 August 2017. As part of the comprehensive induction programme delivered to all non-executive directors, Mr Thursby met with senior management from across the business and visited the casino and bingo businesses accompanied by the respective managing directors of Mecca and Grosvenor.

#### **Skills and knowledge**

All directors are given regular written briefings with regard to matters affecting the Group's businesses, such as the political and regulatory environment and corporate governance reform. Additionally, at the board's request, the Group's auditor keeps the board abreast of key impact items such as political and regulatory initiatives with regard to narrative reporting, executive remuneration, going concern and the role of the audit committee.

Directors are invited to identify to the company secretary or human resources director any desired skills and knowledge enhancements that they require so that appropriate training can be arranged.

Additionally, once a year, the directors have an opportunity to review and agree their respective training and development needs during their one-on-one meetings with the chairman.

### **Information and support**

Assisted by the company secretary, the chairman is responsible for ensuring that directors receive accurate and timely information on all relevant matters.

The directors receive a monthly report of current and forecast trading results and treasury positions, as well as updates on shareholder views.

A rolling programme of items sets the agenda for board discussion. This is regularly reviewed and updated to cover topical issues and developments.

Comprehensive briefing papers on substantive agenda items are circulated at least five working days before meetings where possible. These contain detailed background information, thus freeing time for informed debate.

We operate an open-door policy between the board and the management team. Members of the management team also make regular board presentations to ensure a flow of operational information reaches the directors in a timely way.

All directors have access to the advice and services of the company secretary and, if required, may take independent advice and/or professional development at the Company's expense.

### **Evaluation**

This year the evaluation of the board and its committees consisted of:

- ◇ individual private meetings between the chairman and board members at which feedback was given;
- ◇ a private meeting of the non-executive directors to review the performance of the chairman;
- ◇ a private meeting between the senior independent director and the chairman at which feedback on the performance of the chairman was given;
- ◇ an evaluation of the performance and effectiveness of the audit committee using Ernst & Young LLP's practical guide and toolkit and identification of actions for the forthcoming year; and
- ◇ an evaluation of the performance and effectiveness of the board's other committees using questionnaires and identification of actions for the forthcoming year.

In addition, the chairman together with two non-executive directors evaluated the performance of the chief executive by means of a questionnaire and meeting. The outcome was discussed and then fed back to the other non-executive directors.

Actions identified from the above activities included:

- ◇ audit committee – implementation of a formal process for the committee to review the effectiveness of internal audit's activities and identification of a method for assessing the financial literacy of committee members, of gaps in skills, knowledge and experience of committee members and, where necessary, of training and knowledge needs;
- ◇ nominations committee – closer monitoring of executive team succession, talent and resource, implementation of a plan to achieve board-level diversity targets, and review of the Group human resources director's plan to achieve diversity targets for executive committee and direct reports to executive committee;
- ◇ remuneration committee – a further review of the committee's terms of reference, and implementation of a process for aligning pay and conditions where acquisitions have been made;
- ◇ responsible gambling committee – redefinition of the committee's purpose and goals and review of its terms of reference; and
- ◇ finance committee – review of its terms of reference.

The board met to discuss the effectiveness of itself and its committees during the year and concluded that, overall, it had functioned effectively during the period under review and that its committees continued to discharge their duties in line with their respective terms of reference.

**CORPORATE GOVERNANCE** CONTINUED**Election and re-election**

All new directors must stand for election at the first annual general meeting after their appointment and, thereafter, at intervals of no more than three years. Non-executive directors are engaged for an initial period of three years and must stand for election and re-election in the same way. The Company's articles of association require one-third of serving directors to retire annually.

Alex Thursby was appointed to the board after the last annual general meeting and is therefore required to submit himself for election at the forthcoming annual general meeting on 19 October 2017.

The Company complies with the Code's requirement for annual re-election of directors of FTSE 350 companies. All directors will be submitting themselves for re-election at the forthcoming annual general meeting with the exception of Mr O'Donnell who has taken the decision to stand down from the board with effect from the conclusion of the forthcoming annual general meeting.

**Relations with shareholders*****Dialogue with shareholders***

The board as a whole takes responsibility for ensuring that satisfactory dialogue with shareholders takes place. As at 30 June 2017, 56.16% of our shares were held by our majority shareholder, Hong Leong, and a further 38.08% were held by 20 institutional shareholders.

Given that Rank is a 56.16% subsidiary of Guoco, the chief executive and other members of Rank's executive management team meet with representatives of Guoco four times a year to discuss business performance and other issues that could impact their financial statements.

We speak with our institutional shareholders and city analysts through a programme of investor relations and regular meetings with principal shareholders conducted by our chief executive, finance director and director of investor relations.

All directors receive reports to keep them in touch with shareholder opinion. During the period under review, a total of 52 meetings with 35 shareholders were attended by one or more of the chief executive and finance director.

Formal briefings on shareholder opinion are circulated to the board after presentation of the Company's interim and annual results.

The principal method of communicating with all our shareholders is via our corporate website, [www.rank.com](http://www.rank.com). Information can be provided in paper format, but only when shareholders specifically request this.

***Constructive use of the annual general meeting***

All shareholders are welcome to attend our annual general meeting. Private investors are encouraged to ask questions. The chairman and chairmen of the audit and remuneration committees are all present.

Shareholders are invited to vote on the formal resolutions contained in the notice of meeting, which is published at least 20 working days beforehand. The business presentation, voting results and a summary of the questions and answers are made available at [www.rank.com](http://www.rank.com), or in printed format on request.

Shareholders may also use electronic means to vote – or appoint a proxy to vote on their behalf – at the annual and other general meetings of the Company.

***Next annual general meeting***

The 2017 annual general meeting will be held on 19 October 2017 and the full text of the notice of meeting, together with explanatory notes, is set out in a separate document at: [www.rank.com/en/investors/shareholder-centre/shareholder-meetings.html](http://www.rank.com/en/investors/shareholder-centre/shareholder-meetings.html).

If you have elected for paper information, this will be enclosed with your hard copy of this annual report. Shareholders wishing to change that election may do so at any time by contacting the Company's registrar, details of which can be found on page 146 and on our website at [www.rank.com/en/investors/shareholder-centre/contacts.html](http://www.rank.com/en/investors/shareholder-centre/contacts.html).

# AUDIT COMMITTEE



**Owen O'Donnell**  
Chairman

## **Other committee members**

Chris Bell, Steven Esom, Alex Thursby

## **Role of the audit committee**

All members of the audit committee (the 'Committee') are independent, assisting the board in reviewing and maintaining internal controls, the management of risk and compliance with the law and regulation, namely by:

- ◇ taking responsibility for monitoring the effectiveness of the Group's internal audit function;
- ◇ assessing the integrity of all public financial statements before their submission to the board, ensuring that a fair, balanced and understandable assessment of the Group's ongoing position and prospects is presented;
- ◇ authorising any changes in accounting policies and reviewing the objectivity and effectiveness of the external auditor every year; and
- ◇ overseeing the Company's internal code of conduct and monitoring the Company's whistleblowing procedures through which employees may, in confidence, raise concerns about any possible improprieties in areas of financial reporting, financial control or ethical matters.

The Committee's terms of reference are available from the Company's website at: [www.rank.com/en/investors/corporate-governance/terms-of-reference.html](http://www.rank.com/en/investors/corporate-governance/terms-of-reference.html), or by writing to the company secretary.

## **Audit committee membership and meetings**

All members of the Committee are non-executive directors and have maintained independence throughout the period under review. Pursuant to Code provision C.3.1, the composition of the Committee provides a high level of financial experience and competence within the gaming sector. Chris Bell has extensive experience within the betting and gaming industry and Owen O'Donnell has held roles within the online gaming industry as well as being a chartered accountant.

Mr O'Donnell will be stepping down at the conclusion of the forthcoming annual general meeting, having served nine years on the board and thus no longer being considered independent. Following the appointment of Alex Thursby to the board as a non-executive director with effect from 1 August 2017, it is proposed that Mr Thursby serve as the chairman of the Committee, with effect from the conclusion of the annual general meeting. Mr Thursby has considerable experience within compliance and risk governance, having held senior executive and non-executive director roles within the banking sector.

## CORPORATE GOVERNANCE CONTINUED

## Committee meeting attendance

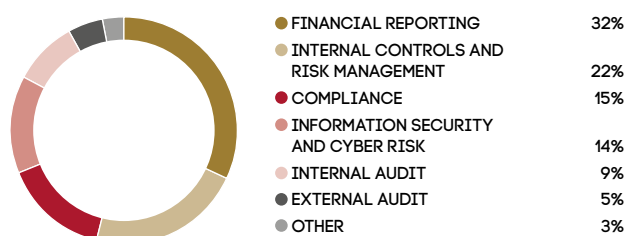
Name	Committee member since	Attendance/ eligibility to attend	Notes
<b>Current committee members</b>			
Chris Bell	June 2015	4/4	
Steven Esom	March 2016	4/4	
Owen O'Donnell	September 2008	4/4	Mr O'Donnell has been Committee chairman since 22 April 2014 and proposes to step down as Committee chairman with effect from the conclusion of the annual general meeting on 19 October 2017.
Alex Thursby	August 2017	0/0	Mr Thursby has been a Committee member since 1 August 2017.

A rolling agenda and topical items determine the Committee's discussions. The Committee met formally four times in the period under review. Members of the Committee also met separately to discuss matters without the presence of management. The external auditor was also provided the opportunity to discuss any issues with the Committee without the presence of executive management.

At the invitation of the Committee chairman, the chief executive, finance director, company secretary, head of reporting and director of internal audit normally attend Committee meetings, as does the external auditor. Other board directors are encouraged to attend at least one Committee meeting a year at which the external auditor is present.

## 2016/17 activity

The graphic below provides an overview of the Committee's allocation of agenda time during the year, based on key areas of review at the quarterly meetings.



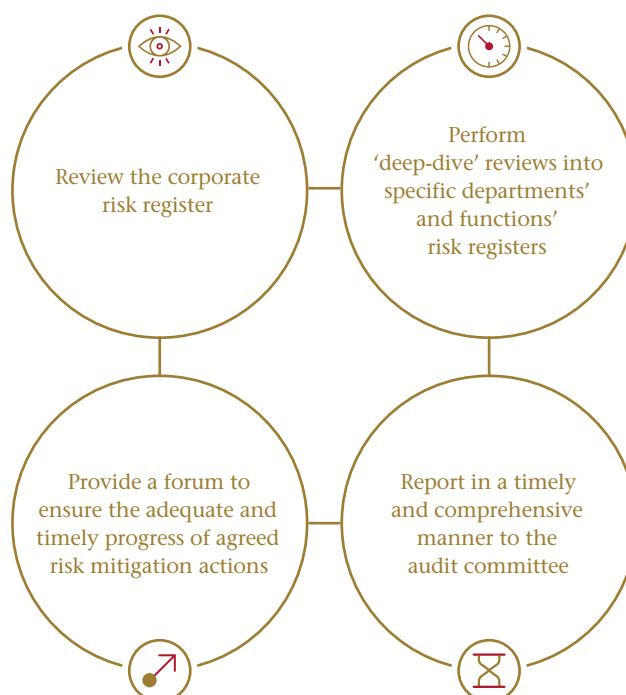
## Risk management

The Committee has four scheduled meetings per year, and by invitation welcomes specialist employees from various departments and functions of the Group to support detailed discussions of specific operational risks. The Committee supports the successful execution of the Group's strategy, which requires a thorough and critical approach to identifying, accepting and mitigating existing and emergent risk; to that end both the board and the Committee take an active role in ensuring that a culture of risk awareness and risk-adjusted decision-making is embedded throughout the Group.

The Committee and the board monitor the effectiveness of the risk management process and regularly review the principal risks together with the controls and risk-mitigation actions put in place to manage them.

Whilst responsibility remains with the board, a key part of oversight of the risk management process is executed through the Group's risk committee, which reports monthly to the board and provides oversight in relation to the Group's risk exposure. The risk committee met 10 times during the year and comprises the chief executive, finance director, company secretary, chief information officer and director of internal audit.

## Role of the risk committee:



The principal risks and uncertainties section on page 42 of the strategic report details the key areas of focus of the risk committee during the year.

The Committee reviews management's biannual reports on anti-money-laundering, internal and external fraud, whistleblowing, internal code of conduct and inadvertent breaches of legislation, as well as reviewing the Group's corporate risk register.



## Standard agenda risk reporting

Corporate risk register and methodology	The Committee reviews the effectiveness of the methodology for the risk register, ensuring that it remains in line with the requirements of the business.
Assurance regarding anti-money laundering (AML), counter-terrorist financing (CTF) and anti-proceeds of crime (PoC) policies and procedures	The Committee regularly reviews Mecca's and Grosvenor's management of controls in both retail and digital with regard to AML, CTF, PoC and legislative requirements.
Information security improvement plan	Regular assessments are undertaken to review the progress achieved against management's information security improvement plan and updated cyber security risks.

Pursuant to Code provision C.2.2, in taking account of the Company's current position and principal risks the board has adopted a period of three years for assessing the viability of the Company. The board agreed the proposed process to support the viability statement and has delegated to the Committee responsibility for overseeing this. The viability statement can be found on page 41.

### Internal control framework

Our system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and provides reasonable, not absolute, assurance against material misstatement or loss. It controls, rather than eliminates, any human error, deliberate misconduct or uncertain events.

To maintain control and direction over strategic, financial, operational and compliance issues, the board has put in place formally defined lines of responsibility and delegation of authority. Established procedures are geared to identifying, evaluating and managing significant risks and to monitoring the Group's businesses and performance.

This framework is reviewed annually and is designed to safeguard shareholders' investments and the Group's assets, while ensuring that proper accounting records are maintained. Senior management is responsible for making sure that controls and procedures are enforced and that the board is informed of any risks and control issues that arise.

**Financial control:** there is a comprehensive system for reporting financial results to the board, a budgeting process incorporating an approved budget and biannual re-forecasts. The chief executive and finance director hold monthly review meetings with managing directors and their respective directors of finance.

**Financial reporting control:** detailed policies and procedures are in place to ensure the accuracy and reliability of financial reporting.

**Strategic control:** the board reviews the Group's strategic plans annually and regularly reviews strategic progress.

**Operational control:** procedures are laid down in detailed manuals and reinforced by employee training. Each business unit carries out a monthly self-audit to test key controls and report weaknesses to operational management.

**Compliance control:** across the Group we have teams whose responsibility it is to ensure day-to-day adherence to all legislation to which our operations are subject, including gambling, anti-money-laundering and health and safety. Senior executives and the internal audit team are responsible for monitoring overall compliance. They report to the Committee and the board.

The executive directors and senior management meet regularly with representatives from the businesses to address financial, human resource, risk management and other control issues.

At its meetings during the year and up to the date of approval of this annual report and financial statements, the Committee examined the effectiveness of the Group's approach to internal control by reviewing changes to controls made during the year and reviewing the adequacy and progress of action plans to address failings or weaknesses identified in the Group's system of internal control. This process has been reviewed by the board and meets the standards of Financial Reporting Council's internal control guidance to directors.

### Internal audit

The Committee has responsibility for the internal audit function and the director of internal audit reports directly to the chairman of the Committee. Our internal audit team provides an objective and regular stream of analysis and opinion on risk management and control. To avoid bias, it is entirely independent of the business operations under audit and maintains strict management of any conflicts of interest arising.

The scope of the audit coverage is approved by the Committee and covers all systems, procedures and activities of all operations, departments and functions within the Group, including projects, policy developments, and financial and non-financial processes.

The Committee also agrees the annual audit plan, which covers operational, corporate and IT audits; reviews the level and nature of internal audit resource; and reviews the audit reports produced by the internal audit team.

## CORPORATE GOVERNANCE CONTINUED

The internal audit team seeks to determine whether the system of risk management, control and governance processes, as designed and operated by management, is adequate and functioning in such a manner as to ensure that:

- ♦ risks are appropriately identified and managed in line with the Company's risk appetite;
- ♦ operations are run with sufficient and adequate controls and in an efficient and effective manner;
- ♦ significant financial, managerial and operating information is accurate, reliable and timely;
- ♦ employee actions are in compliance with policies, standards, procedures, and applicable laws and regulations; and
- ♦ relevant laws, rules and regulations are complied with in the operation of the business.

To embed control further, the scores used by internal audit to monitor each business unit's controls performance also affect operational management bonuses.

The director of internal audit makes regular presentations to the Committee and reporting includes comparative and trend analysis. During the period under review the Committee had three closed sessions with the director of internal audit without executive management being present.

#### Code of conduct

Rank has an employee code of conduct that sets out our values and principles and guides everyone's behaviour. Adherence to the code is important as it upholds our reputation and relationships, inside and outside the Group.

The Committee is responsible for monitoring management reports on employee conduct, including our whistleblowing procedures.

#### Whistleblowing

Rank considers it important to maintain a culture of openness, honesty and opposition to fraud, corruption and unethical business conduct. It is Rank's policy to implement and maintain procedures that promote ethical business conduct and reduce the risk of fraud and other irregularities, enabling early detection, investigation and reporting. To support this, Rank has a fraud and unethical business conduct whistleblowing policy which sets out the ways in which employees can voice their concerns about suspected fraud, corruption or unethical business conduct.

#### Culture

The Committee has reviewed the effective monitoring of Company culture and how this may be incorporated within the risk framework and assessed through the internal audit function. There has been a strong focus on the launch of the Group's STARS values, details of which can be found on page 29 of this report. Anonymous employee questionnaires have been used to gain further insight into employee satisfaction and there has been engagement in monitoring corporate culture using Glassdoor and LinkedIn.

#### Financial reporting and significant financial issues

The Committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. The Committee reviews accounting papers prepared by management which provide details of the main financial reporting judgements and estimates. The Committee also reviews reports by the external auditor on the full-year and half-year results which highlight any issues with respect to the work undertaken.

Significant accounting issues considered by the Committee during the year included:

- ♦ treatment of exceptional items;
- ♦ impairment review of intangible assets and property, plant and equipment;
- ♦ review of provisions, including those in relation to property leases, restructuring and indirect tax;
- ♦ review of the costs recognised as part of the Group restructuring undertaken;
- ♦ recoverability of the convertible loan note; and
- ♦ contingent assets and liabilities.

**Exceptional items** – The Committee reviewed the accounting treatment of exceptional items and members were in agreement that the items listed in note 4 are exceptional in size or nature in relation to the Group and therefore it is appropriate to disclose these separately.

**Impairments** – For goodwill and indefinite-life assets not subject to amortisation, the Group performs an annual impairment review. In addition, the Group also reviews assets that are subject to amortisation or depreciation for events or changes in circumstances that indicate that the carrying amount of an asset or cash-generating unit may not be recoverable. If a definite-life asset has been previously impaired the Group considers whether there has been a change in circumstance or event that may indicate the impairment is no longer required. The Group considers each venue to be a cash-generating unit and therefore the review covers in excess of 150 individual cash-generating units.

The Committee reviewed management's impairment review process including, where applicable, the potential indicators of impairment and/or reversal, cash flow projections and discount rates used to derive a value in use, and the sensitivity to assumptions made. During the year, the Committee reviewed total exceptional impairment charges of £6.7m in respect of four venues where performance has been below expectations, including a £4.1m impairment of Grosvenor's Southend casino. The Committee also considered the exceptional reversal of previous impairment charges of £2.5m at three venues following a period of sustained performance recovery due to a competitor closure, and two reversals in Spain due to improvements in the local economic environment.

The Committee was of the view that the net impairment charge recognised of £4.2m was appropriate. Further details of the impairment charges and reversals are disclosed in note 4.

**Property leases** – At both the half and the full year, the Committee considered the Group's approach to property lease provisions, the discount rates applied and management's recommendations, in order to satisfy itself how management came to its best estimate of property lease obligations. The Committee noted that the Group has a number of property leasehold contracts and was of the view that appropriate provision had been made against those property leases where the unavoidable costs exceed the expected economic benefit expected to be derived from the property. During the year, the Committee reviewed the exceptional net credit from property leases of £14.7m, including a £10.7m credit in relation to the successful surrender of the Bradford onerous lease following the venue's closure, and it was of the view that the net credit released was appropriate. Further details of the property lease provision held are disclosed in note 21 and the exceptional adjustments made in the current year are disclosed in note 4.

In addition, the Committee was also updated in respect of certain property leasehold contracts where the rights and obligations but not the legal titles have been transferred to third parties such that the Group remains potentially liable in the event of default by the third party. Should default occur then the Group would have recourse to one or more guarantor entities. These leasehold contracts include eight remaining property leases, with lease durations of between 21 months and 96 years and a current annual obligation (net of sub-let income) of approximately £0.8m, that were transferred concurrent to the £211m sale and leaseback in 2006. The Committee noted the risk associated with the transfer of such property leasehold contracts but that the Group has not to date been notified of any default, or intention to default, in respect of the transferred leases. Further details of this contingent liability are disclosed in note 30.

**Restructuring** – The Committee received an update at both half and full year in respect of the Group restructuring undertaken during the year. The Committee considered the appropriateness of items included in the exceptional cost of £8.8m, together with the recognition criteria and measurement bases for the element provided for at the balance sheet date.

The Committee was satisfied that items included in the Group restructuring cost and the related provision were appropriate. Further details of the exceptional cost and related provision are disclosed in notes 4 and 21 respectively.

**Indirect tax** – The Committee receives and considers an update paper covering the Group's indirect tax issues, including the Group's VAT claims, at both the half and the full year. The Committee noted the decision of the Supreme Court in favour of HMRC regarding claims for overpaid VAT on certain types of amusement machines between 2002 and 2005, but that a full provision has been made for amounts not yet repaid.

The Committee was of the view that management's best estimate of the liability for the issues that remained outstanding was appropriate. Details of the indirect tax liability recognised are disclosed in note 21.

**Convertible loan note** – The Committee considered management's paper in respect of the recoverability of the convertible loan note due from the Group's digital platform provider and recognised the significant level of judgement and estimation made by management in ascertaining its recoverability. It was noted that the estimation of fair value remains uncertain but that, based on the information presented by management, the committee is satisfied that the loan remains recoverable through conversion. The Committee will continue to monitor the appropriateness of the judgements and estimates made in respect of the recoverability of the convertible loan note during 2017/18.

**Contingent assets and liabilities** – In determining the accounting treatment of potential assets and liabilities management has applied judgement in assessing the probability of occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

The Committee receives triannual updates from management, incorporating legal advice as appropriate, on the accounting treatment for potential assets and liabilities in relation to disclosure or recognition. The Committee is of the view that management has appropriately treated such items in the financial statements. Details of the liabilities are included in note 30.

In addition to the above, the Committee has been updated on progress in respect of the ongoing project to assess the impact of, and prepare for the transition to, IFRS 16 Leases. The Committee understands the impact of IFRS 16 on the Group will be material and as such will continue to request progress updates from management during 2017/18.

The Committee also receives and considers an update paper covering the Group's ongoing direct tax issues at both the half and full year. These issues cover both discontinued operations with historic tax audits and continuing operations where tax returns submitted have been, or are likely to be, challenged by the relevant tax authority. The Committee was of the view that management's best estimate of the liability for the remaining issues was appropriate. See note 17 for details of the direct tax liability recognised.

#### **Financial Reporting Council review of interim accounts**

In April 2017, the Company was notified that the Conduct Committee of the Financial Reporting Council had carried out a review of the Group's interim report for the six months ended 31 December 2016. The review raised no questions or queries on the interim report.

#### **Principal risks and uncertainties**

Details of the Group's principal risks and uncertainties, and the controls in place to mitigate them, can be found on pages 42 to 44 of the strategic report. Additionally, details of the financial risks that the Group faces can be found in note 19 to the financial statements.

**CORPORATE GOVERNANCE** CONTINUED**Committee evaluation**

The Committee's performance during the period under review was assessed via confidential questionnaires with Committee members and other individuals who support its work. The results were then reviewed by the Committee chairman and discussed with the board. The board agreed that the Committee continued to perform effectively. Further details of the evaluation process can be found on page 57.

**Assessment of effectiveness of external audit process**

Agreement on how best to assess the effectiveness of the external audit process was discussed between the Committee chairman, the finance director and the company secretary and a proposal agreed. That proposal was put to the other Committee members for agreement. Part of the effectiveness of the external audit process was assessed by the use of a questionnaire which posed questions in relation to different aspects of the external audit process. Those individuals employed by Rank most actively involved with the day-to-day aspects of the audit provided responses to certain questions asked of them. The views of Rank employees involved with the audit were considered, discussed and summarised and provided to audit committee members for discussion amongst themselves.

In addition to a private meeting between the Committee chair and the external audit partner, the Committee met with the auditor on three occasions following Committee meetings in closed sessions without executive directors to assess the objectivity and accuracy of financial reporting and to hear any other observations that the auditor had to make.

**Audit tendering**

The Committee has noted the requirements regarding audit tender and rotation of the audit engagement partner. The Company's external audit was most recently tendered during 2009, resulting in a change of external auditors and the appointment of Ernst & Young LLP at the Company's annual general meeting on 22 April 2010. There was a change of external audit partner following completion of the 31 December 2015 interim review. The Committee has continued to give consideration to the timing of the next formal tender and has considered that it is not appropriate to define the timing of the tender until the successor to the current Committee chairman formally takes his seat. The Committee does not anticipate that a tender will be undertaken during the 2017/18 financial year and there are no contractual obligations that restrict the choice of external auditors.

**Auditor**

Having reviewed their performance throughout the period, our conclusion that Ernst & Young LLP's effectiveness is satisfactory enables us to recommend their reappointment for 2017/18.

The auditor, Ernst & Young LLP, is willing to continue in office and a resolution that they be reappointed at a remuneration to be agreed by the Committee will be proposed at the forthcoming annual general meeting.

**External auditor**

Our auditor is employed to express an opinion on the financial statements. It reviews the systems of internal financial control and the data contained in the financial statements to the extent necessary to express its opinion.

It discusses with management the reporting of operational results and the financial position of the Group, and presents findings to the Committee.

**Information**

The directors in office at the date of this report are not aware of any relevant information that has not been made available to the auditor and each director has taken steps to be aware of all such information and to ensure it is available to the Company's auditor.

**Non-audit work**

The Committee oversees the nature and amount of any non-audit work undertaken by the auditor to ensure it remains independent. Consequently, the Committee is required to approve in advance all non-audit services priced above £25,000.

When seeking external accountancy advice in relation to non-audit matters, the Group's policy is to invite competitive tenders where appropriate. It is also the Group's policy to balance the need to maintain audit independence with the desirability of taking advice from the leading firm in the area of advice being sought and the desirability of being efficient. Details of the fees paid to Ernst & Young LLP throughout the period under review can be found in note 3.

Rank has used the services of other accounting firms for non-audit work during the period under review.

Rank is satisfied that the objectivity and independence of the audit partner and the audit engagement team have not been compromised by the fees paid for the non-audit work undertaken by Ernst & Young LLP.

**Assurance**

The internal audit function and the external auditor presented their findings to the Committee in August and November 2016 and in January and June 2017. We confirm that action plans to remedy identified weaknesses in internal control have been in place throughout the period.

Ernst & Young LLP's audit report is published on page 90.

**Owen O'Donnell**

Chairman of the Audit Committee  
16 August 2017

# NOMINATIONS COMMITTEE



**Ian Burke**  
Chairman

## Other committee members

Chris Bell, Steven Esom, Susan Hooper, Lord Kilmorey, Owen O'Donnell, Alex Thursby

## Introduction

The nominations committee (the 'Committee') comprises the chairman and all independent non-executive directors.

The Committee is responsible for identifying relevant talent and nominating all board appointments with due regard for the benefits of diversity on the board, including gender and ethnicity.

## 2016/17 activity

During the year under review the Committee met formally on two occasions.

The main issues which the Committee discussed during the year under review were:

- ◇ preparations for the retirement of the audit committee chairman;
- ◇ review of board appointments process;
- ◇ board diversity;
- ◇ governance: strengthening the employee, customer and wider stakeholder voice;
- ◇ chairman succession planning;
- ◇ review of committee terms of reference;
- ◇ review of board skills; and
- ◇ board and committee composition.

## Appointment of non-executive director

Alex Thursby was appointed to the board with effect from 1 August 2017 for an initial term of three years subject to election at the forthcoming annual general meeting and thereafter subject to re-election at subsequent annual general meetings.

The key criteria applied in screening candidates for this appointment were that the successful individual would:

- ◇ bring a high level of commercial experience and expertise to the board to assist in its deliberations to create value for shareholders;
- ◇ be able to chair the audit committee, having the relevant levels of financial and accounting experience to do so; and
- ◇ have a good cultural fit with the current board and majority shareholder.

It was recognised that the individual's diversity in outlook and attitude would be important and that ideally the successful candidate would also bring gender and/or ethnic diversity to the board.

A sub-committee of the board comprising the chairman, senior independent director and Susan Hooper was formed to conduct the search process. The board together with the majority shareholder and several advisers were requested to put forward the names of potential candidates who satisfied the above criteria. Given the quantity and quality of candidates put forward, it was determined that it was not necessary to appoint an external search firm or use open advertising to assist in identifying further candidates. Four candidates were short-listed for interview and all three sub-committee members met two of the short-listed candidates. The sub-committee met to review the four short-listed candidates and discuss who to put forward to the remaining members of the nominations committee for interview. The sub-committee agreed to put forward Mr Thursby as it felt that he best met the selection criteria.



All other board members then each met Mr Thursby and their feedback was given to the Committee. Mr Thursby was already known to the majority shareholder due to Mr Thursby's previous professional banking experience in Asia.

Following a meeting of the Committee, Mr Thursby was recommended to the board for appointment. At its meeting on 28 June 2017 the board unanimously resolved to appoint Mr Thursby to the board and to serve on its audit, remuneration and nominations committees and succeed to the chair of its audit committee upon the resignation of Mr O'Donnell at the conclusion of the 2017 annual general meeting.

The board is satisfied that Mr Thursby is independent by reference to the criteria set out in provision B.1.1 in the Code. Details of Mr Thursby's experience, current and former roles can be found on page 51.

#### **Board appointments process**

The Committee reviewed its process for board appointments that had last been reviewed in March 2015. That review resulted in the secretary being requested to amend the process so that it specifically referred to ethnic diversity and so that any search firm engaged would speak to the brand managing directors in order to gain an understanding of the corporate culture.

#### **Board diversity**

During the period under review, the Committee has continued to consider the issue of diversity (including gender and ethnic diversity) in the context of the board and is mindful of the benefits that diversity brings to the board. The Committee has received briefings on:

- ♦ the Hampton-Alexander Review on improving gender balance in FTSE-company leadership;
- ♦ the Parker Report into ethnic diversity on UK boards; and
- ♦ the McGregor-Smith Review into race in the workplace.

The board welcomes these reports.

The board's diversity policy is to recruit the best candidate having regard to the skills and experience required, but with a mind to diversity, including gender and ethnic diversity. The board continues to aim to achieve 33% female representation on Rank's board. The Committee has also agreed to set a target of 33% women on Rank's executive committee and of direct reports to the executive committee by 2020. Additionally, the board aims to have at least one director of colour by 2024 as recommended by the Parker Report.

As far as the recent appointment of a new non-executive director is concerned, the Committee did consider and discuss the selection of Mr Thursby as the preferred candidate in the context of gender and ethnic diversity. Given that his appointment did not advance the board's gender and diversity aspirations, the Committee was of the view that it would be beneficial to start a process to look for a further non-executive director and has requested that sub-committee to progress this.

Further details of the gender breakdown of directors, senior management and the Group can be found on page 30 of the strategic report.

#### **Governance: strengthening the employee, customer and wider stakeholder voice**

During the year, the Committee received briefings on corporate governance reform and specifically the UK Government's Green Paper on corporate governance: strengthening the employee, customer and wider stakeholder voice. The Committee discussed the benefits that could be obtained from having a worker representative on the board and whether there were other ways of obtaining those benefits without formal appointment. The Committee will continue to explore this.

#### **Chairman succession planning**

Led by the senior independent director, the Committee has had two discussions about chairman succession planning and the process and length of time that would be required to identify and recruit a successor. The Committee has also discussed contingency succession planning in the event of unforeseen circumstances.

#### **Committee terms of reference**

During the year, the Committee reviewed its terms of reference and agreed to recommend changes to the board so that certain matters would be expressly stated. The recommended amendments were approved by the board on 31 March 2017. The formal terms of reference of the Committee are available on our website at [www.rank.com/en/investors/corporate-governance/terms-of-reference.html](http://www.rank.com/en/investors/corporate-governance/terms-of-reference.html), or by written request to the company secretary.

#### **Board and committee composition and succession planning**

The Committee keeps the board's size and structure under review. The Committee is of the view that the board is well balanced, providing a collective competence to suit the Group's developing needs and an appropriate blend of executive and non-executive skill. We believe that all our directors are suitably qualified to help steer and challenge Group strategy.

The composition and chairmanship of our board committees are considered annually and have been considered once during the period under review. Additionally, details of skills and length of tenure can be found on page 67.

The Committee considered the comments of the Institute of Chartered Secretaries and Administrators on a chief executive's membership of a board's nominations committee and agreed that Henry Birch would step down as a formal member of the Committee although he would still attend meetings of the Committee at the invitation of the Committee chairman.

It was agreed that Susan Hooper would join the responsible gambling committee with effect from 1 July 2017.

The Committee also recommended that Alex Thursby join the audit, remuneration and nominations committees with effect from 1 August 2017 and that he chair the audit committee with effect from the conclusion of the 2017 annual general meeting upon the retirement of Owen O'Donnell.



## Committee meeting attendance

Name	Committee member since	Attendance/ eligibility to attend	Notes
Chris Bell	Jul 15	2/2	
Henry Birch	Jul 14	2/2	Mr Birch stood down from the Committee on 21 June 2017.
Ian Burke	Jun 14	2/2	Mr Burke has been Committee chairman since 25 June 2014.
Steven Esom	Mar 16	2/2	
Susan Hooper	Sep 15	2/2	
Lord Kilmorey	Feb 14	1/2	Lord Kilmorey was unable to attend one meeting due to another unavoidable commitment.
Owen O'Donnell	Feb 14	2/2	Mr O'Donnell will step down from the Committee on 11 September 2017
Alex Thursby	Aug 17	0/0	Mr Thursby joined the Committee on 1 August 2017

The charts below illustrate the diversity, skills, experience and tenure of the board as at 30 June 2017.

### GENDER

#### NON-EXECUTIVE DIRECTORS



#### EXECUTIVE DIRECTORS



● MALE ● FEMALE

### THE AGE OF EXECUTIVE AND NON-EXECUTIVE DIRECTORS

#### 40-49 YEARS



#### 50-59 YEARS



#### 60+ YEARS



### SKILLS AND EXPERIENCE OF NON-EXECUTIVE DIRECTORS

#### STOCK EXCHANGE LISTED COMPANY



#### PEOPLE/REMUNERATION



#### GOVERNMENT RELATIONS



#### DIGITAL MEDIA/SOCIAL MEDIA



#### MARKETING/BRANDS



#### INTERNATIONAL



#### MOBILE (ANY BUSINESS)



#### FINANCE/ACCOUNTING



#### GAMBLING (RETAIL OR REMOTE)



#### BROADER LEISURE



#### ONLINE (ANY BUSINESS)



### TENURE OF EXECUTIVE AND NON-EXECUTIVE DIRECTORS

#### > 1-3 YEARS



#### > 3-6 YEARS



#### > 6-9 YEARS



#### > 9 YEARS



# RESPONSIBLE GAMBLING COMMITTEE



**More information**

Responsible  
gambling

26



**Lord Kilmorey**  
Chairman

## Other committee members

Chris Bell, Henry Birch, Ian Burke, Susan Hooper

The responsible gambling committee (the 'Committee') has now completed its first full year, having been formed in the second half of 2015/16.

The Committee met on four occasions during the year.

The Committee exists to assist in the formulation and monitoring of the Group's responsible gambling strategy. The formal terms of reference for the committee are available at [www.rank.com/en/investors/corporate-governance/terms-of-reference.html](http://www.rank.com/en/investors/corporate-governance/terms-of-reference.html) or by written request to the company secretary.

During the year, the Committee benefited from the insight and thoughts of Dr Simon Tanner of the Responsible Gambling Strategy Board and separately Professor Ian McHale from Salford University who, along with his colleague Professor David Forrest, undertook an extensive examination of machine play and loss-chasing behaviour using data from Grosvenor Casinos. We shall continue to invite guests to attend Committee meetings so as to expand and renew our understanding in the fields of problem gambling research, education and treatment.

The Committee has contributed to the close examination of a number of key matters. We have considered and contributed to Rank's response to a call for evidence issued by the Department for Digital, Culture, Media and Sport; the review of gaming machines and social responsibility.

The review reinforces that every gambling service provider must be actively involved and investing in developing our collective understanding of gambling-related harm. We must achieve continual improvement.

We welcome the Gambling Commission's insistence that customer welfare and fairness come first. We understand the requirement to make demonstrable progress and we are determined to meet that objective. The Annual Assurance Statement process has led to positive discussion and debate and given focus to the Group's activities. The Committee will continue to monitor and support this process.

During the year, we have increased responsible gambling resources, not least through two appointments dedicated to this area: a head of responsible gambling and a data scientist. We have created a two-year plan of activity which we will be discussing at the first meeting of 2017/18 and will be monitoring thereafter.

The Group's commitment to the welfare of its customers is clear and the Group's culture supports this. This is a complex and challenging subject everyone in Rank understands, as we continue to invest in the wellbeing of customers.

## Lord Kilmorey

Chairman of the Responsible Gambling Committee  
16 August 2017

## Committee meeting attendance

Name	Committee member since	Attendance/ eligibility to attend	Notes
Chris Bell	Mar 16	4/4	
Henry Birch	Mar 16	4/4	
Ian Burke	Mar 16	4/4	
Susan Hooper	Jul 17	0/0	Ms Hooper joined the committee on 1 July 2017
Lord Kilmorey	Mar 16	4/4	Lord Kilmorey has been Committee chairman since 22 March 2016

# FINANCE COMMITTEE



**Ian Burke**  
Chairman

## Other committee members

Henry Birch, Clive Jennings

The board has established a finance committee (the 'Committee') which comprises the chairman, chief executive and finance director. The Committee is authorised to approve capital expenditure and make financing decisions for the Group up to certain limits. The Committee also acts as the board's disclosure committee for the purposes of the Market Abuse Regulation (MAR) that came into force on 3 July 2016.

The Committee's terms of reference are available from the Company's website at [www.rank.com/en/investors/corporate-governance/terms-of-reference.html](http://www.rank.com/en/investors/corporate-governance/terms-of-reference.html), or by writing to the company secretary.

## 2016/17 activity

The Committee met on 10 occasions during the year and the issues it discussed included:

- ♦ trading;
- ♦ financial reporting;
- ♦ estate management issues;
- ♦ progress in relation to an inter-company balance reduction and Group simplification project;
- ♦ insurance cover and uninsured risks;
- ♦ review of non-executive director fees;
- ♦ payment of dividends by the Group's two Belgian subsidiaries;
- ♦ the Company's loan to and call option over shares in its digital platform software provider (Bede Gaming);
- ♦ decisions to delay public disclosure of discussions regarding M&A activity; and
- ♦ commercial agreements within its delegated authority.

## Committee meeting attendance

Name	Committee member since	Attendance/ eligibility to attend	Notes
Current committee members			
Henry Birch	May 14	10/10	
Ian Burke	Mar 06	10/10	Mr Burke has been Committee chairman since 15 July 2011.
Clive Jennings	Jul 11	10/10	



# REMUNERATION COMMITTEE



**Steven Esom**  
Chairman

## Other committee members

Susan Hooper, Owen O'Donnell, Alex Thursby

## Annual statement

### Introduction

On behalf of the board, I am pleased to present Rank's remuneration report which will be subject to the usual annual advisory vote at the 2017 annual general meeting.

### Performance in 2016/17

It was a challenging year for our retail businesses, with the Group delivering revenue (before customer incentives) marginally up on prior year. However, a strong digital performance and improved cost discipline across the Group contributed to a 1% increase in operating profit (before exceptional items).

Our performance resulted in annual bonus pay-out of 63% of maximum opportunity for the chief executive and 42% of maximum opportunity for the finance director. These outcomes were lower than last year reflecting underperformance against the Group profit after tax target.

Taking account of comments from some investor bodies made last year, this year we have improved disclosure on the 2016/17 bonus outcome by clearly setting out how the bonus pool was calculated and the basis upon which allocations were made to the two executive directors.

The performance period for the 2014/15 long-term incentive plan (2014/15 LTIP) ended on 30 June 2017, the performance conditions for which were based 50% on Group EBITDA, Group profit after tax and Group digital revenue and 50% on a balanced scorecard of non-financial and strategic measures linked to business objectives. Performance, details of which are set out on pages 79 and 80, resulted in 37.5% of the award vesting, 45% of which is due to vest on 1 December 2017 with the remainder of the award vesting 30% on 1 December 2018, and 25% on 1 December 2019, subject to continued employment.

The Committee believes the bonus and long-term incentive outcomes are fair reflections of performance over their respective performance periods. Further details for both the annual bonus and LTIP are described in the annual report on remuneration on pages 78 to 81.

The 2014/15 LTIP award was a 'block award' covering three annual awards with no awards made in 2015/16 and 2016/17. This structure results in a reported LTIP vesting value every three years and no vesting value in the two intermittent years. 2016/17 marked the end of the performance period and therefore the single total figure of remuneration for both directors increased significantly this year reflecting no potential vesting event in the prior year, 2015/16. This was despite relatively modest vesting at 37.5% of maximum.

Base salaries were reviewed during the year and the Committee was minded to increase executive directors' salaries by the general increase of the workforce. However, the directors requested that they have no increase and therefore salaries remained unchanged at 1 April 2017, the effective date for increases.

### Remuneration policy

The key focus of the Committee this year was to design a new remuneration policy and to ensure that the annual bonus and long-term incentive schemes being proposed enable Rank to attract, retain and reward Rank's senior executives to deliver optimal and sustainable returns to shareholders. In order to allow sufficient time for us to consult with our shareholders and their representative bodies on our proposals for short- and long-term plans, we will bring our proposed new remuneration policy to shareholders for approval at a general meeting to be held as soon as reasonably practicable and in any event no later than 22 April 2018 when the current policy expires.

The shareholder circular for the general meeting will contain our proposed new remuneration policy and all the disclosures for that policy including an explanation of the structure of the new policy, the key changes to the policy and the rationale for such changes. Therefore, the remuneration policy in this remuneration report is the policy approved at the general meeting on 22 April 2015. This policy has been included to comply with Section 421(2A) of the Companies Act 2006 and will be replaced by any new remuneration policy approved by shareholders at the general meeting.

### Conclusion

The Committee has made significant efforts to improve disclosure this year and believes that the annual and long-term incentive outcomes are reflective of performance over their relative measurement periods. At the annual general meeting, the annual report and this annual statement for 2016/17 will be put to a single advisory vote which we hope you will be able to support.

We will be returning with a new remuneration policy for shareholder approval later this year and this will have taken into account the views of our major shareholders.

I and my fellow Committee members will be present at the annual general meeting to answer any questions that shareholders might have. We look forward to receiving your support.

### Steven Esom

Chairman of the Remuneration Committee  
16 August 2017

## Policy report

This part of the directors' remuneration report sets out the remuneration policy for the Company and has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The remuneration policy set out below (the 'Policy') was put to, and approved by, shareholders at a general meeting held on 22 April 2015.

A copy of the Policy is also available on the Group's website at: <http://bit.ly/RemunerationPolicy>.

Information on how the Company intends to implement the Policy for the current financial year is set out in the Annual remuneration report section on page 76.

### Remuneration and components

The Committee reviews the Company's remuneration philosophy and structure each year to ensure that the remuneration framework remains effective in supporting the Company's strategic objectives and fairly rewards individuals for the contribution that they make to the business, having regard to the size and complexity of the Group's operations and the need to motivate and attract employees of the highest calibre.

The performance of Rank is dependent upon the quality of its directors, senior executives and employees and therefore the Group seeks to attract, retain and motivate skilled directors and senior executives of the highest calibre, without paying more than is necessary. In order to attract such individuals, the Committee needs to ensure that the remuneration packages properly reflect an individual's duties and responsibilities, are appropriate and competitive, sensitive to pay elsewhere within the Group and directly linked to performance.

### Committee's approach to setting pay policy

The Committee intends that the base salary and total remuneration of executive directors should be competitive against other similar gaming peers and companies of a broadly similar size. Remuneration is benchmarked against rewards available for equivalent roles in suitable comparator companies, with the aim of paying neither significantly above nor below market levels for each element of remuneration at target performance levels.

The Committee also considers general pay and employment conditions of all employees within the Group and is sensitive to these, to prevailing market and economic conditions and to governance trends when assessing the level of salaries and remuneration packages of executive directors and other members of the executive committee.

The total remuneration package links corporate and individual performance with an appropriate balance between short- and long-term elements, and fixed and variable components. The policy is designed to incentivise executives to meet the Company's key objectives, and so a significant proportion of total remuneration is performance-related.

The Committee will set targets for the different components of performance-related remuneration so that they are both appropriate and sufficiently demanding in the context of the business environment and the challenges facing the Group.

**DIRECTORS' REMUNERATION REPORT** CONTINUED**Policy table**

The key components of executive directors' remuneration, as applicable from 22 April 2015, are summarised below.

Component	Purpose and link to business strategy	Mechanics Operation and performance framework
<b>Base salary</b>	To attract and retain skilled, high-calibre individuals to deliver the Group's strategy.	<p>Base salaries are reviewed annually and are appropriately set to reflect:</p> <ul style="list-style-type: none"> <li>◇ the role's scope, responsibility and accountabilities;</li> <li>◇ market data;</li> <li>◇ general rates of increase across the Group, and</li> <li>◇ the performance and effectiveness of the individual.</li> </ul> <p>Any increase will take effect on 1 January of the following year.</p>
<b>Insured and other benefits</b>	Insured and other benefits are offered to executive directors as part of a competitive remuneration package.	<p>Insured benefits comprise private healthcare insurance for executive directors and dependants, life assurance and permanent health insurance.</p> <p>Other benefits comprise a cash car allowance and the fuel cost of all mileage (private and business). The amount of the cash car allowance is reviewed periodically by the Committee in the light of market conditions.</p>
<b>Retirement provisions</b>	Rewards sustained contribution and encourages retention.	Executive directors are automatically enrolled in The Rank Group Workplace Pension Scheme (the 'Pension Scheme') in accordance with the Company's obligations under the Pensions Act 2008. The Company will contribute into the Pension Scheme at the rate of 10% of the executive director's base salary. If the executive director chooses to opt out of his automatic enrolment in the Pension Scheme he is entitled to receive a cash allowance of an annual amount equivalent to 10% of basic salary.
<b>Annual bonus</b>	Motivates the achievement of annual strategic, financial and personal performance. Rewards individual contribution to the success of the Company.	<p>Rank operates an annual cash bonus scheme in which executive directors participate. Under the scheme an annual bonus pool is created based on the return on shareholder funds over a one-year period.</p> <p>The bonus plan operates on a pool system with sharing rates varying based on performance above a threshold. The mechanics of the plan are set by the Committee at the start of the year with payment made after the year end following the Committee's assessment of performance relative to targets. The primary performance measure is the return on shareholder funds, as this determines the size of the pool. The allocation of the pool between individuals is at the Committee's discretion in light of the achievement of annual financial and strategic goals as well as individual performance. A full description of the performance measures in place and how this determines the bonus pool will be provided in the Annual Remuneration Report.</p> <p>The scheme operates a threshold level of performance below which no bonus is paid. However, the resulting pay-out, as a percentage of salary, will vary year-on-year in line with bonus pool funding.</p>
<b>Long-term incentive plan</b>	The long-term incentive plan is intended to align the interests of the executive directors and shareholders through the creation of shareholder value over the long-term.	<p>The Rank Group Plc 2010 Long-Term Incentive Plan is currently the only long-term equity-based incentive scheme in place for the executive directors and other senior executives.</p> <p>Executive directors may receive contingent share awards which have the ability to vest after a three-year period based on the achievement of specified performance targets. The Committee may apply a further holding period to all or part of the award to further align directors' interests with those of shareholders.</p> <p>The Committee will determine measures and targets at the beginning of each cycle to ensure continuing alignment with strategy. Performance targets may relate to both financial and non-financial measures linked to the Company's long-term business strategy, including but not limited to:</p> <ul style="list-style-type: none"> <li>◇ Group EBITDA;</li> <li>◇ Group profit after tax;</li> <li>◇ Group annual active customers;</li> <li>◇ Group digital revenue;</li> <li>◇ Group ROCE; and</li> <li>◇ Strategic objectives of the Group.</li> </ul>

Maximum

	<p>Ordinarily any increases in executive directors' base salaries will be limited to those received by the wider workforce during the year (except for reasons of promotion or salary being determined to be significantly out of line with market median).</p>
<p>The Committee retains the discretion to offer relocation assistance in the form of an allowance or otherwise to support the movement of executive talent across the business. If provided, the Committee aims to ensure payments are not excessive and support business needs. As such, relocation assistance will be reviewed on a case-by-case basis taking into account factors such as the individual's circumstances and the geographies involved, meaning that there is no prescribed formula for calculating the level or structure of payments.</p>	<p>It is anticipated that the provision of insured and other benefits will not exceed 10% of salary.</p> <p>The Committee may exceed this should the cost of the benefits provided change in accordance with market conditions or in the event of the payment of relocation assistance.</p>
<p>The Committee retains the discretion to honour all contractual pension arrangements agreed prior to the application of this Policy. Details of such arrangements are disclosed in the Annual Remuneration Report.</p>	<p>For all new appointments, the maximum pension contribution (defined contribution or cash supplement) will be 10% of base salary.</p> <p>Legacy arrangements to be honoured (% of salary): FD: 15%</p>
<p>The measures governing the allocation of the pool to executive directors will be set and disclosed retrospectively on an annual basis, to the extent this is not commercially sensitive.</p> <p>The annual bonus plan is discretionary and the Committee reserves the right to adjust payments up or down. Any such adjustment would only be in exceptional circumstances which would be outlined in the relevant year's Annual Remuneration Report. Clawback provisions do not apply to the annual bonus plan.</p> <p>To allow the Committee to assess the quality of earnings over the year and to introduce an element of retention into the scheme, any cash bonuses earned by the executive directors will be subject to a six-month deferral period and will be paid in the December following the 30 June financial year end.</p>	<p>CEO: 100% of base salary</p> <p>FD: 80% of base salary</p>
<p>The following amounts will vest in accordance with performance:</p> <p>There is no threshold level of performance under the plan.</p> <p>Maximum: 100%</p> <p>Other points on the vesting schedule will be determined by the Committee when the performance targets are set.</p> <p>At the end of the performance period, the Committee will have absolute discretion to determine the extent to which the awards will vest, if at all, on account of underlying Company performance. If discretion is applied, the level and reasons for its application will be fully disclosed in the following year's Annual Remuneration Report.</p> <p>Clawback and malus provisions will apply to awards made under the plan.</p>	<p>Normal maximum per annum award levels (% of salary)</p> <p>CEO: 200%</p> <p>FD: 133%</p> <p>An exceptional maximum per annum award level of 400% of salary is also effective under the Policy. The Committee does not intend to use the exceptional maximum beyond the first year of the policy where, for technical reasons, a higher maximum is required to implement the new long-term incentive plan. In this first year the actual value, at grant, of active awards will not exceed the normal maximum levels specified above. More detail will be available in the Annual Remuneration Report.</p>



## DIRECTORS' REMUNERATION REPORT CONTINUED

**Additional notes to the Policy table****Setting of performance measures and targets**

The Committee reviews and selects performance measures at the beginning of each award cycle under both the annual bonus plan and the long-term incentive plan, being informed by the short- and long-term priorities of the Group at the time. The Committee considers the Group's key performance indicators and strategic business plan when selecting measures and calibrating targets. Details of these are included in the annual report each year. Factors that the Committee may consider include the benchmark return rate on shareholder funds, the strategic plan, the annual budget, analysts' forecasts, economic conditions, individuals' areas of responsibility, the Committee's expectations over the relevant period and input from the major shareholder.

**Differences in the remuneration policy for executives relative to the broader employee population**

The remuneration policy in place for the executive directors is informed by the structure operated for the broader employee population. Pay levels and components vary by organisational level but the broad themes and philosophy remain consistent across the Group:

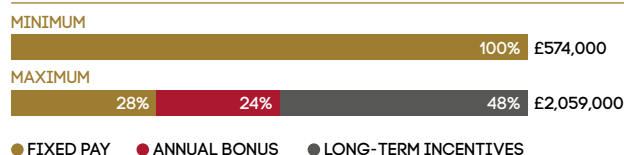
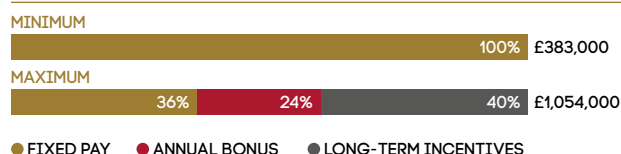
- ◇ salaries are reviewed annually with regard to the same factors as set out in the Policy table for executive directors;
- ◇ consistent with executive directors, senior executives together with general and some operational managers of our business units participate in an annual bonus plan with bonus pool funding dependent on profit performance of the Group or brand depending on their level;
- ◇ members of the senior management team can be considered for awards under the long-term incentive plan. This is intended to encourage share ownership in the Company and align the management team with the strategic business plan; and
- ◇ eligibility for and provision of benefits and allowances varies by level and local market practice. It is standard for senior executives to receive a company car allowance. Pension provision below board level is overall at lower contribution rates, with the majority of Rank's eligible employees now being automatically enrolled into the NEST workplace pension scheme. However, a significant proportion of employees remain in Rank's stakeholder pension plan, where the standard contribution rates are the same as those offered to board-level members.

**Potential reward opportunities at different levels of performance**

The graphs below exhibit the remuneration policy for existing executive directors and show indicative total remuneration levels under different performance scenarios. The remuneration policy results in a high proportion of total remuneration being dependent on performance, with a majority tied to the long-term performance of the Group.

The annual bonus and long-term incentive schemes do not operate an 'on-target' award level. Under the bonus scheme, awards will depend on bonus pool funding and as such are variable year on year. A cap is in place under the scheme. Under the long-term incentive plan performance is considered against each selected metric independently with Committee discretion applied as to the level of overall vesting. Given the structure of incentive arrangements we have not provided an 'on-target' scenario in the following charts, rather a minimum and maximum only, which better reflects the operation of the incentive schemes at Rank. The two performance scenarios are calculated as follows:

- ◇ Minimum – performance below target which results in no variable remuneration being payable.
- ◇ Maximum – 100% of the maximum annual cash bonus and full vesting of the long-term incentive award achieved. Normal maximum awards as described under the Policy are presented.

**CHIEF EXECUTIVE OFFICER****CHIEF FINANCIAL OFFICER****Assumptions**

- ◇ Fixed elements comprise base salary, pension and benefits. Base salary and pension levels are as at 1 July 2017.
- ◇ The long-term incentive award values depicted in the charts above represent the annualised opportunity to directors under the currently-operated remuneration policy. Normal maximum awards as described under the Policy are presented.
- ◇ No adjustment is made for share price growth or the payment of dividends.
- ◇ No element of pay for the chairman or non-executive directors varies with performance and so no separate graphs are included.

**Approach to recruitment remuneration**

The Committee will apply the existing remuneration policy to new executive directors in respect of all components of remuneration. As such, the maximum level of variable remuneration which may be granted is 100% of salary on an annualised basis for the chief executive and 80% of salary on an annualised basis for other executive directors.

The Committee may also make an additional award of cash or shares on the appointment of a new director in order to compensate for the forfeiture of an award from a previous employer. Such awards would be made on a comparable basis, taking account of performance, the proportion of the performance period remaining and the type of award. The Committee will set appropriate performance conditions and vesting would be on the same time horizon as the forfeited award.

For both internal and external appointments, the Committee may agree that the Company will meet certain relocation expenses, as set out in the Policy table.

New non-executive directors will be appointed on the same remuneration elements as the existing non-executive directors. It is not intended that variable pay, day rates or benefits in kind be offered.

#### ***Approach to termination payments***

The Company does not believe in reward for failure. The circumstances of a director's termination (including the director's performance) and an individual's duty to mitigate losses are taken into account in every case. Rank's policy is to stop or reduce compensatory payments to former executive directors to the extent that they receive remuneration from other employment during the compensation period.

Compensatory payments are limited to 12 months' base salary, cash car allowance and defined pension contributions (or salary supplements).

#### ***Executive directors' service agreements***

It is the Company's policy that executive directors have rolling service agreements.

The current executive directors' service contracts contain the key terms shown in the table below:

Provision	Detailed terms
<b><i>Remuneration</i></b>	<ul style="list-style-type: none"> <li>◇ Base salary, pension and benefits</li> <li>◇ Cash car allowance</li> <li>◇ Private health insurance for director and dependants</li> <li>◇ Life assurance</li> <li>◇ Permanent health insurance</li> <li>◇ Participation in annual bonus plan, subject to plan rules</li> <li>◇ Participation in long-term incentive plan, subject to plan rules</li> <li>◇ 25 days' paid annual leave</li> </ul>
<b><i>Notice period</i></b>	12 months' notice from both the Company and the director
<b><i>Termination payment</i></b>	<p>Payment in lieu of notice equal to:</p> <ul style="list-style-type: none"> <li>◇ 12 months' base salary</li> <li>◇ Cash car allowance</li> <li>◇ Pension supplement</li> </ul> <p>All of the above would be paid in monthly instalments, subject to an obligation on the part of the director to mitigate his loss such that payments would either reduce, or cease completely, in the event that the director gained new employment.</p>
<b><i>Restrictive covenants</i></b>	During employment and for nine months after leaving

Annual bonus awards will lapse in their entirety in the event an individual is no longer employed or is serving their notice period at the time of pay-out.

If the holder of a long-term incentive award ceases, for any reason, to be an executive director or employee of a Rank Group company, that holder's long-term incentive award shall lapse immediately upon them ceasing to be an executive director or employee. However, the Committee may in its absolute discretion allow awards to continue until the normal vesting date and be satisfied, subject to the achievement of the relevant performance conditions. In such circumstances, awards vesting will be prorated on a time-apportioned basis, unless the Committee determines otherwise. Any such discretion in respect of leavers would only be applied by the Committee to 'good leavers' where it considers that continued participation is justified, for example, by reference to past performance to the date of leaving.

#### ***Change of control***

In the event of a change of control, the Committee has absolute discretion as to whether and on what basis awards should vest under the long-term incentive plan. The Committee would normally allow awards to vest upon a change of control subject to satisfaction of performance conditions and reduction on a time-apportioned basis.

**DIRECTORS' REMUNERATION REPORT** CONTINUED

Copies of the executive directors' service contracts are available for inspection at the Company's registered office.

Service agreements outline the components of remuneration paid to the individual director but do not prescribe how remuneration levels may be adjusted from year to year.

The executive directors have served on the board for the periods shown below and have service agreements dated as follows:

Position	Name	Date of contract	Length of board service as at 30 June 2017
Chief executive	Henry Birch	24 April 2014	3 years 2 months
Finance director	Clive Jennings	27 July 2011	5 years 11 months

**Chairman**

The chairman, Ian Burke, has a letter of engagement dated 22 April 2014 which is effective from 6 May 2014 and which replaced his service agreement dated 6 March 2006 in respect of his former role as chief executive. He was initially engaged as non-executive chairman for a period of three years. His appointment is terminable without compensation on three months' notice from either side. The chairman receives an all-encompassing fee of £160,000 per annum (2016/17: £150,000) which includes his chairmanship of the nominations and finance committees. The fee is reviewed annually by the Committee, with reference to the size and complexity of the role and external market comparisons, in the final quarter of each calendar year, with any increase taking effect on 1 April the following year. The chairman is not entitled to any benefits in kind and is not eligible for pension scheme membership, bonus or incentive arrangements.

**Policy for non-executive directors**

Component	Purpose and link to business strategy	Mechanics, operation and performance framework	Maximum
Fees	To attract and retain skilled, high-calibre individuals to deliver the Group's strategy.	<p>Fees are reviewed in the final quarter of each calendar year to reflect appropriate market conditions.</p> <p>Fee increases, if applicable, are effective from 1 April the following year.</p> <p>The base fee includes membership of the audit, remuneration, nominations and finance committees.</p> <p>Non-executive directors are not entitled to any benefits in kind and are not eligible for pension scheme membership, bonus or incentive arrangements.</p>	<p>Aggregate annual fees limited to £500,000<sup>1</sup> by the Company's articles of association.</p> <p>Current fee levels are set out in the annual remuneration report.</p>

<sup>1</sup> At the forthcoming annual general meeting, the Company will be proposing changes to its articles of association, including an increase to the limit on aggregate annual fees payable to non-executive directors to £750,000.

Non-executive directors have letters of engagement setting out their duties and the time commitment expected. They are appointed for an initial period of three years, after which the appointment is renewable by mutual consent at intervals of not more than three years. In accordance with the Code, all directors offer themselves for annual re-election by shareholders. Details of non-executive directors' appointments, which are terminable without compensation, are set out in the table below:

Non-executive director	Original date of appointment	Date of letter of engagement	Total length of service as at 30 June 2017
Owen O'Donnell	11 September 2008	20 August 2008	8 years 9 months
Lord Kilmorey	1 May 2012	29 March 2012	5 years 2 months
Chris Bell	1 June 2015	5 May 2015	2 years 1 month
Susan Hooper	1 September 2015	11 August 2015	1 year 10 months
Steven Esom	1 March 2016	24 February 2016	1 year 4 months
Alex Thursby	1 August 2017	21 June 2017	n/a

**Shareholder engagement**

In putting together this policy, we consulted with our major shareholders and received largely positive feedback.

However, some concerns remain, particularly regarding the use of a three-year block award. The Committee feels strongly that this feature remains fit for purpose and will motivate the executive team to deliver value for shareholders over the longer term. In particular, we have received strong support for the plan from our major shareholder.

**Statement of consideration of employment conditions elsewhere in the Company**

As described in the notes to the Policy table on page 74 the overarching themes of the Policy in place for executive directors are broadly consistent with those applied to the wider employee population. The Committee does not use any comparison metrics when reviewing pay in relation to the wider employee population, other than the consideration of the general rates of increase across the Group, nor does it deem it to be appropriate to consult with employees on the remuneration policy for executive directors.

**Annual remuneration report**

The directors' remuneration report has been prepared on behalf of the board by the remuneration committee (the 'Committee'), under the chairmanship of Steven Esom.

The Committee has applied the principles of good governance set out in the Corporate Governance Code and, in preparing this report, has complied with the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations').

Rank's external auditor is required to report to shareholders on the audited information contained in this report and to state whether, in its opinion, it has been prepared in accordance with the Regulations.

### Directors' single remuneration figure (Audited)

The table below presents a single remuneration figure for each director for the years ended 30 June 2017 and 30 June 2016 in respect of performance during the years ended on those dates:

	Fixed pay (£)				Performance pay (£)			2016/17 total remuneration (£) <sup>3</sup>
2016/17	Salary/fees	Taxable benefits <sup>1</sup>	Pension	Sub-total	Cash bonus	3-year block LTIP award vesting <sup>2,3</sup>	Sub-total	
Executive directors								
Henry Birch	495,000	29,620	48,916	573,536	312,608	1,122,305	1,434,913	2,008,449
Clive Jennings	315,000	20,863	46,376	382,239	105,500	496,653	602,153	984,392
Non-executive directors								
Chris Bell	49,500	n/a	n/a	49,500	n/a	n/a	n/a	49,500
Ian Burke	152,500	n/a	n/a	152,500	n/a	n/a	n/a	152,500
Steven Esom	57,500	n/a	n/a	57,500	n/a	n/a	n/a	57,500
Susan Hooper	50,000	n/a	n/a	50,000	n/a	n/a	n/a	50,000
Lord Kilmorey	50,000	n/a	n/a	50,000	n/a	n/a	n/a	50,000
Owen O'Donnell	59,000	n/a	n/a	59,000	n/a	n/a	n/a	59,000

- 1 Taxable benefits comprise car allowance and fuel benefit; and life, long-term disability and private medical insurances, as detailed on page 72 of the Policy report.
- 2 LTIP vesting values under the 2014/15 LTIP for which performance ended on 30 June 2017. The figures shown in the table are based on the average share price (217.87 pence) for the three months to 30 June 2017 and will be restated with the actual vesting values in next year's report. Based on the performance conditions assessed at 30 June 2017 (see page 72 for full detail on the vesting conditions), 515,132 shares for the chief executive and 227,961 shares for the finance director are expected to vest provided the directors meet the service requirements.
- 3 Unaudited note: The 2014/15 LTIP award was a 'block award' covering three annual awards with no awards made in 2015/16 and 2016/17 and a performance period ending on 30 June 2017. This structure results in a reported LTIP vesting value every three years with no vesting value in the two intermittent years. The annualised vesting value (calculated by dividing the three-year block LTIP award vesting value by three) would be £374,102 for the chief executive and £165,551 for the finance director, making their respective 2016/17 total remunerations, £1,260,246 and £653,290 on an annualised basis.

2015/16	Fixed pay (£)				Performance pay (£)			2015/16 total remuneration (£)
	Salary/fees	Taxable benefits <sup>s</sup>	Pension	Sub-total	Cash bonus	LTIP vesting	Sub-total	
Executive directors								
Henry Birch	461,250	29,846	45,543	536,639	396,000	n/a	396,000	932,639
Clive Jennings	303,750	20,485	44,689	368,924	189,000	n/a	189,000	557,924
Non-executive directors								
Chris Bell	48,500	n/a	n/a	48,500	n/a	n/a	n/a	48,500
Ian Burke	150,000	n/a	n/a	150,000	n/a	n/a	n/a	150,000
Steven Esom <sup>4</sup>	18,542	n/a	n/a	18,542	n/a	n/a	n/a	18,542
Susan Hooper <sup>5</sup>	39,333	n/a	n/a	39,333	n/a	n/a	n/a	39,333
Lord Kilmorey	47,000	n/a	n/a	47,000	n/a	n/a	n/a	47,000
Owen O'Donnell	55,625	n/a	n/a	55,625	n/a	n/a	n/a	55,625
Tim Scoble <sup>6</sup>	22,292	n/a	n/a	22,292	n/a	n/a	n/a	22,292
Shaa Wasmund <sup>7</sup>	13,446	n/a	n/a	13,446	n/a	n/a	n/a	13,446

- 4 Steven Esom joined the board on 1 March 2016.
- 5 Susan Hooper joined the board on 1 September 2015.
- 6 Tim Scoble resigned as a director on 30 November 2015.
- 7 Shaa Wasmund resigned as a director on 15 October 2015.
- 8 Taxable benefits comprise car allowance, fuel benefit and life, long-term disability and private medical insurances.

Non-executive directors receive fees only, details of which are provided on page 84 together with the non-executive chairman's fees. These amounts are within the maximum annual aggregate amount of £500,000 currently permitted by the Company's articles of association.

The aggregate total annual amount received by all directors during the year ended 30 June 2017 is shown below:

	2016/17	2015/16
Executive directors <sup>9</sup>	£2,992,841	£1,490,563
Chairman and non-executive directors	£418,500	£394,738
Total	£3,411,341	£1,885,301

- 9 Unaudited note: The aggregate total amount received by the executive directors in 2016/17 includes the vesting value of the 2014/15 LTIP award which was a 'block award' covering three annual awards with no awards made in 2015/16 and 2016/17 and a performance period ending on 30 June 2017. This structure results in a reported LTIP vesting value every three years with no vesting value in the two intermittent years. If the 2014/15 LTIP vesting value is annualised (by dividing the three-year block LTIP award vesting value by three), the aggregate total amount received by the executive directors for 2016/17 would be £1,913,536.



**DIRECTORS' REMUNERATION REPORT** CONTINUED**Base salary (Audited)**

Salaries were subject to a review during the year with any increases applying from the salary review date, 1 April 2017.

The Committee was minded to increase executive directors' salaries by the general increase of the workforce. However, the directors requested that they should have no increase and therefore base salaries remain unchanged at 1 April 2017:

	1 April 2017	1 April 2016	% change
Chief executive	<b>£495,000</b>	£495,000	Nil
Finance director	<b>£315,000</b>	£315,000	Nil

**Annual bonus plan (Audited)**

The annual bonus plan is structured as a pool funded each year as a percentage of modified profit after tax (modified to exclude bonus and LTIP costs) with the sharing rate dependent on performance. Performance is based on the rate of return achieved on opening shareholding funds.

The concept of shareholders' funds was introduced in July 2012 using the market value of the Company at the time. Shareholders' funds are inflated annually by the difference between continuing profit after tax and exceptional items for the year and dividends paid to shareholders.

The target rate of return is set at the beginning of each year by the Committee. For 2016/17 the target rate of return was set at 10%, at which point a bonus pool of 2.25% of modified<sup>1</sup> profit after tax is created for the executive directors and other executive committee members. This pool is then subject to a bonus rate modifier adjusting the pool from 50% to 100%, dependent on performance versus benchmark return on shareholder funds.

Performance against target rate of return on shareholders' funds of 10%	Modifier	Share of bonus pool (% of modified <sup>1</sup> profit after tax)
Greater than 95%	100%	2.25%
90%-95%	85%	1.9125%
80%-90%	70%	1.575%
70%-80%	50%	1.125%
Less than 70%	0%	0%

The remuneration committee has the discretion to exclude items reported as discontinued or exceptional. The bonus pool is allocated at the discretion of the Committee with regard to individual, corporate and relative performance.

The opening shareholders' funds for 2016/17 were £709.4m (2015/16: £663.8m).

**2016/17 annual cash bonus (Audited)**

The annual bonus payment is determined by modified<sup>1</sup> profit after tax (PAT) for the year ending 30 June 2017, being £63.4m. This performance resulted in a return on opening shareholders' funds (ROSF) of 8.9%. As this was between 80%-90% of the 10% target rate of return, a 70% bonus modifier was applied in determining the bonus pool.

The bonus pool for 2016/17 was based on a share of modified<sup>1</sup> PAT as follows:

Actual modified PAT <sup>1</sup>	Actual vs benchmark ROSF (10%)	Modifier	Share of PAT	2016/17 modified <sup>1</sup> PAT and ROSF	2016/17 bonus pool	2016/17 bonus pool (after deduction of employer's national insurance)
£63.4m	8.9%	70.0%	2.25% x 70% = 1.575%	£63.4m	£998,000	£877,000

<sup>1</sup> Actual PAT of £63.1m modified to add back the executive annual bonus pool and deduct the credit arising from revising vesting expectations on the 2014/15 LTIP – a net adjustment of +£0.3m.

The bonus pool of £0.9m was significantly lower than last year's pool of £1.4m, reflecting profit performance during the year.

The Committee carefully reviewed the individual performance of the chief executive and finance director during the year. The resulting payouts were 36% of the pool for the chief executive and 12% for the finance director, or 63% and 42% of maximum opportunity for the chief executive and finance director respectively.

Set out below are key achievements of the chief executive and finance director during the year that the Committee took into account, when determining the bonus pool allocation:

**Chief Executive**

- ♦ Three out of four business segments delivered their budgets, with a particularly strong performance in digital;
- ♦ exercise of strong cost control throughout the business on the back of an inflationary environment;
- ♦ new revenue-generating initiatives in place, including the launch of Luda; and
- ♦ the launch of sports betting.

### Finance director

- ◇ Group simplification;
- ◇ cost reductions; and
- ◇ progress with implementation of new general ledger system.

The entire cash bonus will be subject to a six-month deferral period and therefore will be paid in December 2017.

### Long-term incentives (Audited)

The Rank Group Plc 2010 Long-Term Incentive Plan ('LTIP') is currently the only long-term incentive scheme in place for the executive directors and other senior executives. A single award was made in 2014/15 under the LTIP and no awards were made in 2015/16 or 2016/17.

LTIP awards were granted on 22 April 2015 to Henry Birch and Clive Jennings, based on performance over the three-year period ending 30 June 2017.

Director	2014/15 award	
	CEO (Henry Birch)	FD (Clive Jennings)
Plan	2010 LTIP	2010 LTIP
Date of grant	22 April 2015	22 April 2015
Number of shares in award	1,373,684	607,895
Performance period	1 July 2014 to 30 June 2017	
Earliest vest date for first instalment	1 December 2017 (45%)	
Vest date for second instalment	1 December 2018 (30%)	
Vest date for third instalment	1 December 2019 (25%)	

Of the award, 50% was subject to Group and brand financial performance measured over the three financial years to 30 June 2017 with the remaining 50% based on a balanced scorecard of non-financial and strategic measures linked to business objectives.

Subject to continued employment to the relevant vesting dates, the awards will vest at 37.5% based on performance against the original targets. Performance against targets is shown below:

### Financial performance

Performance measure	Weighting	Threshold target (75% vesting)	Maximum target (100% vesting)	Actual achieved	% vesting
<b>Group performance (40%)</b>					
Group EBITDA	16%	£136m	£148m	£128.8m	0%
Group profit after tax	16%	£64m	£72m	£62.9m	0%
Group digital revenue	8%	£106m	£121m	£111.5m	6.7%
<b>Grosvenor performance (30%)</b>					
EBITDA (pre central costs)	12%	£107m	£114m	£88.0m	0%
Operating profit (pre central costs)	9%	£81m	£90m	£61.0m	0%
Digital revenue	6%	£32.0m	£40.0m	£43.9m	6.0%
Profitability per club (EBITDA; UK only)	3%	£1.79m	£1.85m	£1.57m	0%
<b>Mecca performance (30%)</b>					
EBITDA (pre central costs)	12%	£53.0m	£57.0m	£58.2m	12.0%
Operating profit (pre central costs)	9%	£37.0m	£40.0m	£43.8m	9.0%
Digital revenue	6%	£71.0m	£80.0m	£67.6m	0%
Profitability per club (EBITDA; UK only)	3%	£0.50m	£0.54m	£0.70m	3.0%
<b>Total</b>	<b>100%</b>				<b>36.7%</b>

Financial performance accounted for 50% of the overall vesting, and therefore 18.4% of the award vests.

**DIRECTORS' REMUNERATION REPORT** CONTINUED

The remaining 50% of the award was based on a balanced scorecard of non-financial and strategic measures linked to business objectives. Performance against each objective is shown below:

Business objective	Strategic measure	Performance
<b>Building Rank's digital capabilities</b>	New digital platform in place during the course of the 2015/16 financial year	Weighting: 20.4% Achievement: 20.4% A new digital platform for Mecca and Grosvenor went live at the end of February 2016. The modules included content management system, player management, cashier, bonus, notifications etc. The committee perceived the platform to be of a high standard and that it was delivered on time. Therefore, this objective was met in full.
	New and differentiated poker product	Weighting: 7.5% Achievement: 3.8% New product from Microgaming successfully implemented with good revenue growth since launch but below the anticipated level. The Committee therefore decided that 50% of the objective had been achieved.
<b>Creating a multi-channel offering</b>	Single account and wallet functionality by the end of calendar year 2016	Weighting: 33.8% Achievement: 0% The single account and wallet will launch in 2017/18, and therefore the Committee decided that the objective had not been achieved.
	New retail management systems for Mecca and Grosvenor	Weighting: 11.4% Achievement: 5.8% (Grosvenor) Achievement: 0.0% (Mecca) The new retail management system for Grosvenor has been successfully deployed but the Mecca system was put on hold. The Committee decided only the Grosvenor objective had been achieved.
<b>Using technology to improve efficiency and customer experience</b>	Mecca services app	Weighting: 5.6% Achievement: 2.8% The Mecca services app has been deployed but customer take-up has been lower than expected so the Committee decided to restrict achievement to 50%.
	Grosvenor services app	Weighting: 5.8% Achievement: 1.9% The Grosvenor services app has been deployed with less functionality than planned and customer take-up has been lower than expected, so the Committee decided to restrict achievement to one-third.
<b>Other strategic imperatives</b>	Positive trending proposition from new-format bingo club	Weighting: 15.5% Achievement: 3.5% The new format was fully developed and ready to launch but delays in securing sites and planning resulted in the first site not opening until 7 August 2017. The Committee decided to award 3.5% to reflect the considerable progress made against the objective.
<b>Total (max 100%)</b>		38.2%

Non-financial performance accounted for 50% of the overall vesting, and therefore 19.1% of the award vests.

As well as the financial and non-financial/strategic targets outlined above, the Committee considered the Group's average return on capital employed (ROCE) over the performance period. The Committee concluded that an average 18% return had been achieved which was in excess of the minimum 15% it had expected.

Therefore, based on the performance set out in the above table, 37.5% of the award will vest in three tranches – 45% in December 2017, 30% in December 2018 and 25% in December 2019. The Committee believes the overall vesting outcome based on performance is a fair reflection of performance over the three-year performance period.

### Long-term incentive awards made during 2016/17 (Audited)

2016/17 marked the final year of the long-term incentive award made in 2015 and therefore no incentive grant was made last year. A new remuneration policy will be put forward for shareholder approval in 2017/18 and, subject to shareholder consent, the next award will be made under this new policy in 2017/18.

### Historic chief executive pay and TSR chart (Unaudited)

The tables below show former and current chief executive total remuneration over the last eight years (in the case of Henry Birch, since his date of appointment on 6 May 2014) and their achieved annual variable and long-term incentive pay awards as a percentage of the plan maximum:

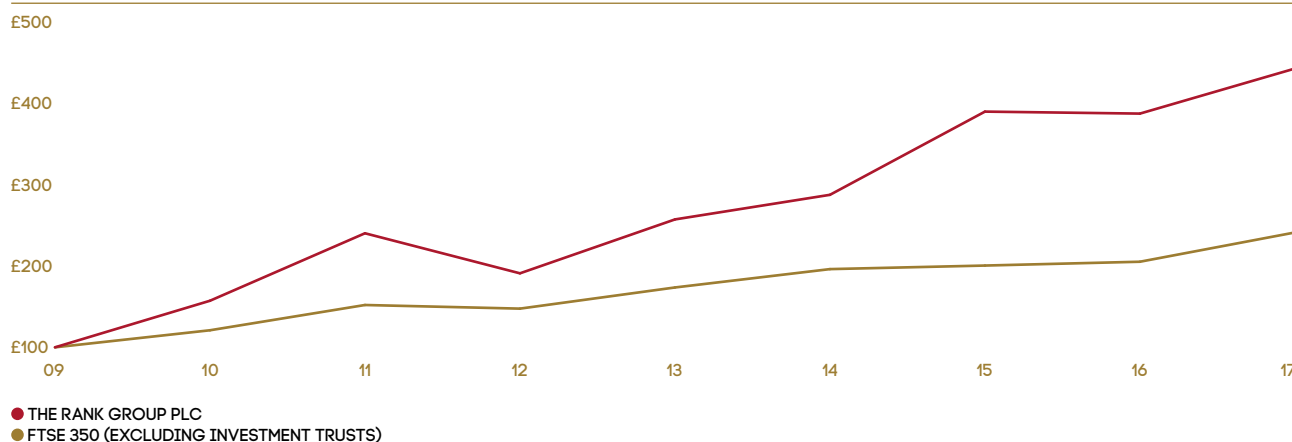
Henry Birch (from 6 May 2014)		Single figure of total remuneration	Annual cash bonus: actual pay-out vs maximum opportunity	LTIP vesting rates against maximum opportunity
2016/17	(12 months)	£886,144	63.15%	37.50%
2015/16	(12 months)	£932,639	80.00%	n/a
2014/15	(12 months)	£916,010	87.20%	n/a
2013/14	(2 months)	£81,850	0.00%	n/a

Ian Burke (until 16 May 2014)		Single figure of total remuneration	Annual cash bonus: actual pay-out vs maximum opportunity	LTIP vesting rates against maximum opportunity
2013/14	(10.5 months)	£663,804	0.00%	0.00%
2012/13	(12 months)	£1,267,489	0.00%	96.25%
2011/12	(18 months)	£3,254,000 <sup>1</sup>	40.00%	100.00%
2010	(12 months)	£1,083,000	63.50%	0.00%

<sup>1</sup> This included an exceptional discretionary bonus equal to 100% of base salary to reward exceptional efforts on behalf of the then chief executive in creating additional sustainable long-term shareholder value via the transformation of the Company's balance sheet that was paid by three equal instalments in September 2012, April 2013 and December 2013.

The following graph illustrates the Company's total shareholder return ('TSR') performance compared with the FTSE 350 Index (excluding investment companies) for the eight years to 30 June 2017. The Committee has selected this index as the Company was a constituent of the FTSE 350 for the entirety of this period.

### TOTAL SHAREHOLDER RETURN



Source: Datastream (Thomson Reuters)

This graph shows the value, by 30 June 2017, of £100 invested in The Rank Group Plc on 30 June 2009, compared with the value of £100 invested in the FTSE 350 (excluding investment trusts) Index on the same date.

The other points plotted are the values at 30 June each year.



**DIRECTORS' REMUNERATION REPORT** CONTINUED**Pensions (Audited)**

Throughout the year ended 30 June 2017, each of Henry Birch and Clive Jennings received a salary supplement equal to, respectively, 10% and 15% of base salary, less the prevailing Lower Earnings Limit (LEL).

Executive director	Amount paid
Henry Birch	£48,916
Clive Jennings	£46,376

**Benefits**

Executive director	Company car	Other benefits	Total benefits paid
Henry Birch	£20,000	£9,620	£29,620
Clive Jennings	£12,750	£8,113	£20,863

**Other payments and obligations (Audited)**

No executive directors left the Company during the year ended 30 June 2017 and therefore no payments for compensation for loss of office were paid to, or receivable by, any director (30 June 2016: £nil). With the exception of a payment to the widow of John Garrett, a former executive director who resigned on 2 February 1998, who received £46,722 (2015/16: £46,213) in respect of an unfunded pension obligation, no payments were made during the year ended 30 June 2017 to any past director of the Company.

**External appointments (Unaudited)**

Executive directors are not permitted to take up non-executive directorships outside the Group.

**Share ownership guidelines and directors' interests in shares (Audited)**

Below we set out details of the share ownership guidelines that were in operation until June 2016. In light of the Company's free float position (see page 86), these have been re-suspended until a higher free float position is achieved.

Similarly, the Group had guidelines for executive shareholding which was set as a percentage of base salary and which executives had five years from appointment to build up. These guidelines were as follows:

Chief executive	150%
Finance director	100%
Other executive committee members	50%

Shareholdings of directors of the Company and its subsidiaries are not considered to be in public hands for the purposes of determining the sufficiency of the percentage of shares in public hands (the 'free float') in the context of qualification for a listing on the UK Listing Authority's premium market. In view of the low level of free float following the completion of Guoco Group Limited's general offer for Rank in July 2011, the non-executive director quarterly share purchase programme and the shareholding guidelines for executive directors and other members of the executive committee who are directors of Rank subsidiary companies were suspended on 14 December 2011. The suspension was lifted on 2 March 2015 when free float was comfortably in excess of 25% but was reactivated on 22 June 2016 pending a restoration of the Company's free float to a higher level. For further information with regard to the Company's free float position, please see page 86.

Subject to achieving a higher free float position, the Committee will review the above percentage guidelines in light of good practice in this area with a view to increasing the guideline to 200% of salary for inclusion in the next remuneration policy.

Directors' shareholdings as at 30 June 2017 are set out in the table below:

Name	Ordinary 13% pence shares as at 30 June 2017	Ordinary 13% pence shares as at 30 June 2016
<b>Non-executive directors</b>		
Chris Bell	0	0
Ian Burke	763,556	763,556
Steven Esom	0	0
Susan Hooper	0	0
Lord Kilmorey	21,100	21,100
Owen O'Donnell	21,224	21,224
Alex Thursby	n/a	n/a
<b>Executive directors</b>		
Henry Birch	100,000	100,000
Clive Jennings	62,500	62,500

For the reasons outlined previously regarding the Company's free float, directors are not currently permitted to purchase shares in Rank.

### **Dilution limits**

The LTIP, being the Company's only equity-based incentive plan, incorporates the current Investment Association guidelines on headroom which provide that overall dilution under all plans should not exceed 10% over a 10-year period in relation to the Company's issued share capital, with a further limitation of 5% in any 10-year period for executive plans.

The Committee regularly monitors the position and prior to the making of any award considers the effect of potential vesting of awards to ensure that the Company remains within these limits. Any awards which are required to be satisfied by market-purchased shares are excluded from the calculations. No treasury shares were held or utilised in the year ended 30 June 2017.

### **Relative importance of spend on pay (Unaudited)**

The table below shows the expenditure and percentage change in overall spend on employee remuneration and distributions paid to shareholders through the dividend paid in the year and share buybacks.

	2016/17	2015/16	Percentage change
Overall expenditure on pay	£221.1m	£217.1m	1.8%
Dividend paid in the year	£26.2m	£22.7m	15.4%
Share buyback	£nil	£nil	n/a

### **Statement of change in pay of chief executive compared with other employees (Unaudited)**

The table below sets out the chief executive's base salary, benefits and annual bonus amounts for the year ended 30 June 2017. We also show the average change in gross earnings for all UK employees across the Group.

	Chief executive		All UK employees <sup>1</sup>
	12 months to 30 June 2017	Percentage change (2015/16 vs 2016/17)	Percentage change (2015/16 vs 2016/17)
Salary	£495,000	7.32%	n/a
Benefits	£29,620	-0.76%	n/a
Bonus	£312,608	-21.06%	n/a
Gross earnings <sup>2</sup>	£837,228	-5.62%	2.65%

1 For the avoidance of doubt 'all UK employees' includes the chief executive. Individual compensation elements for the wider employee population are not readily available to compare separately, hence are provided as the gross earnings main comparison metric.

2 'Gross earnings' excludes insured benefits and pension payments.

### **Role and remit of the Committee (Unaudited)**

The Committee assists the board in setting the remuneration packages for the Company's executive directors and other executive committee members.

The Committee has four scheduled meetings a year to discuss a rolling agenda of items and additional meetings are convened as necessary.

The Committee's formal terms of reference are available on Rank's website at [www.rank.com/en/investors/corporate-governance/terms-of-reference.html](http://www.rank.com/en/investors/corporate-governance/terms-of-reference.html).

### **Committee membership and meeting attendance (Unaudited)**

Biographical details of the current members of the Committee are set out on pages 50 and 51. The Group company secretary acts as secretary to the Committee. The Committee met on five occasions during the year.

Name	Committee member since	Attendance/eligibility to attend	Notes
<b>Current committee members</b>			
Steven Esom	March 2016	5/5	
Susan Hooper	September 2015	5/5	
Owen O'Donnell	January 2010	5/5	
Alex Thursby	August 2017	0/0	Mr Thursby joined the Committee on 1 August 2017

### **Committee activity during the year (Unaudited)**

Matters discussed by the Committee during the year included the following:

- ◇ design of the next remuneration policy;
- ◇ shareholder feedback on the 2015/16 annual remuneration report;
- ◇ April 2017 fixed pay review;
- ◇ 2016/17 annual bonus payments;
- ◇ 2014/15 LTIP performance;
- ◇ 2017/18 annual bonus plan structure and targets;

**DIRECTORS' REMUNERATION REPORT** CONTINUED

- ◇ 2017/18 LTIP structure and targets;
- ◇ review and approval of annual remuneration report; and
- ◇ Committee effectiveness.

**Advisers to the committee (Unaudited)**

The Committee has access to external information and research on market data and trends from independent consultants. During the first half of the year Willis Towers Watson were advisors to the Committee and, following a tender process, New Bridge Street ('NBS'), part of Aon plc, were appointed as external remuneration advisors to the Committee. They have been sole advisors to the Committee since January 2017. NBS is a founder member of the Remuneration Consultants' Group and complies with its Code of Conduct which sets out guidelines to ensure that its advice is independent and free of undue influence.

The chief executive, the company secretary, the finance director and the human resources director provided assistance to the Committee during the year. They attended meetings of the Committee, although none of them was involved in any decision relating to his or her own remuneration.

During the year, the Committee requested NBS to advise on all aspects of Rank's remuneration policy and practice and to review its structures against corporate governance best practice. NBS also provided the TSR performance graph for the directors' remuneration report. NBS was paid fees totalling £25,250 for services provided to the Committee during the year (fees are based on hours spent). NBS did not provide any other services to the Group during the period under review.

**Committee evaluation (Unaudited)**

The Committee's performance during the period under review was assessed via confidential questionnaires with Committee members and other individuals who support its work. Results were then reviewed by the Committee chairman and discussed with the board. The board agreed that the Committee continued to perform effectively. Further details can be found on page 57.

**Shareholder vote on 2015/16 directors' remuneration report at 2016 annual general meeting (Unaudited)**

The table below shows the voting outcome for the 2015/16 directors' remuneration report at the 2016 annual general meeting, both including and excluding the Company's majority shareholder:

	N° of votes 'For' and 'Discretionary'	% of votes cast	N° of votes 'Against'	% of votes cast	Total n° of votes cast	% of total shareholders eligible to vote	N° of votes 'Withheld'
Including majority shareholder	289,199,389	84.24%	54,094,227	15.76%	343,293,616	87.87%	23,041,675
Excluding majority shareholder	69,779,168	56.33%	54,094,227	43.67%	123,873,395	72.33%	23,041,675

1 A vote 'withheld' is not a vote in law.

**Implementation of Policy in 2017/18 (Unaudited)****Salaries**

Salaries will be reviewed, with any changes effective 1 April 2018.

**Pension policy**

There have been no changes to the Company's pension policy during the year.

Non-executive director annual base and additional fees effective 1 April 2017 comprise:

Base non-executive annual fee	£50,000
Audit committee chair	£9,000
Remuneration committee chair	£7,500
Senior independent director	£2,500

The Company chairman's fee was increased by 6.67% to £160,000, with effect from 1 April 2017. The Committee considered that an increase in the Company chairman's fee was warranted to reflect the time commitment, the experience of the individual and the fact it had not been increased since 1 January 2007.

**Annual bonus and long-term incentive**

The bonus and long-term incentive provision will be in line with the new Policy which is expected to be put to a shareholder vote at a general meeting before the expiry of the current remuneration policy in April 2018. We will be consulting with shareholders in advance and we welcome shareholder feedback on issues related to executive remuneration.

**Steven Esom**

Chairman of the Remuneration Committee

16 August 2017

## DIRECTORS' REPORT

The directors present their report together with the audited consolidated financial statements for the year ended 30 June 2017.

The Companies Act 2006 ('CA 2006'), the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the '2008 Regulations'), the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008, the Financial Reporting Council's UK Corporate Governance Code (April 2016) (the 'Code'), the Financial Conduct Authority's (FCA) Listing Rules (LR) and the FCA's Disclosure Rules and Transparency Rules (DTR) contain mandatory disclosure requirements in relation to this annual report in respect of the year ended 30 June 2017.

The directors' report should be read in conjunction with the strategic report (which incorporates the Operating responsibly section).

Strategic report disclosures – Information that the board considers to be of strategic importance which would otherwise need to be disclosed in the directors' report has been included in the strategic report as permitted by Section 414C(11) of the CA 2006. References to where that information can be found are provided in the index below.

Information required in the directors' report which has been disclosed within the strategic report	Location in strategic report	Page n°
Business description	Group brands at a glance	5
Business objectives, strategies and likely future developments	Our strategy and KPIs	24
Corporate responsibility: employees and community	Operating responsibly	29-31
Diversity	Operating responsibly	30
Dividends	Chairman's letter	7
Employment of disabled persons	Operating responsibly	30
Employee engagement	Operating responsibly	30
Going concern and viability statement	Risk management	41
Greenhouse gas emissions	Operating responsibly	31
Principal risks and uncertainties	Principal risks and uncertainties	42
Profits	Financial review	37
Research and development	Strategy and key performance indicators	24

### Disclosures required under LR 9.8.4 R

For the purpose of LR 9.8.4C R, details of the existence of the controlling shareholder relationship agreement, required to be disclosed in accordance with LR 9.8.4 R, can be found on page 86. There are no other disclosures required under this listing rule.

### Directors

The directors who served during the period under review are:

Name	Position
Ian Burke	Chairman
Chris Bell	Senior Independent Director
Henry Birch	Chief Executive
Clive Jennings	Finance Director
Steven Esom	Non-executive Director
Susan Hooper	Non-executive Director
Lord Kilmorey	Non-executive Director
Owen O'Donnell	Non-executive Director

All directors who served during the period under review served for the duration of the period.

### Incorporation and registered office

The Rank Group Plc is incorporated in England and Wales under company registration number 03140769. Its registered office is at TOR, Saint-Cloud Way, Maidenhead SL6 8BN.

### Stock market listing

The ordinary shares of the Company have been listed on the Official List and traded on the main market of the London Stock Exchange for listed securities since 7 October 1996 (Share Code: RNK and ISIN: GB00B1L5QH97). This is classified as a premium listing. The Company's Legal Entity Identifier (LEI) is 213800TXKD6XZWOFTE12. The share registrar is Equiniti Limited.



## DIRECTORS' REPORT CONTINUED

**Share capital**

The Company's authorised share capital as at 30 June 2017 was £180m (£180m as at 30 June 2016), divided into 1,296,000,000 ordinary shares of 13% pence each. The ordinary shares are listed on the London Stock Exchange and can be held in certificated or uncertificated form. There were 390,683,521 shares in issue at the period end (390,683,521 as at 30 June 2016), which were held by 10,380 registered shareholders (10,684 as at 30 June 2016).

**Distribution of registered shareholders as at 30 June 2017**

Range	Total n° of registered shareholders	% of holders	Total n° of shares	% of issued share capital
1 – 1,000	8,782	84.60%	1,663,468	0.43%
1,001 – 5,000	1,197	11.53%	2,475,613	0.63%
5,001 – 10,000	134	1.29%	938,418	0.24%
10,001 – 100,000	175	1.69%	5,353,117	1.37%
100,001 – 1,000,000	66	0.64%	18,442,295	4.72%
1,000,001 and above	26	0.25%	361,810,610	92.61%
Totals	10,380	100.00%	390,683,521	100.00%

**Significant shareholders****Controlling shareholder**

Hong Leong Company (Malaysia) Berhad ('Hong Leong'), the ultimate parent company of Guoco Group Limited ('Guoco'), has a controlling interest in Rank consequent upon the general offer made by its Hong Kong listed subsidiary company, Guoco, via its wholly-owned subsidiary, Rank Assets Limited (then known as All Global Investments Limited), and which completed on 15 July 2011. As at 30 June 2017 and as at the date of this report, Hong Leong's interest is held as follows:

- ♦ 52.03% – Rank Assets Limited, a wholly-owned subsidiary of Guoco;
- ♦ 4.05% – GuoLine Overseas Limited, Guoco's immediate parent company; and
- ♦ 0.08% – Hong Leong Management Co Sdn Bhd, a wholly-owned subsidiary of Hong Leong.

Hong Leong Group is a leading conglomerate based in Malaysia with diversified businesses in banking and financial services, manufacturing and distribution, property development and investments and hospitality and leisure. Further information on the Hong Leong group of companies can be found at [www.hongleong.com](http://www.hongleong.com).

Guoco is an investment holding company. The principal activities of its subsidiaries and associated companies include investment, property development, financial services and hospitality and leisure. Further information on the Guoco group of companies can be found at [www.guoco.com](http://www.guoco.com).

On 10 November 2014 Rank entered into an agreement with Hong Leong and Guoco (together the 'Controlling Shareholder') in accordance with the requirements of LR 9.2.2A R(2)(a) (the 'Relationship Agreement'). During the period under review Rank has complied with the independence provisions included in the Relationship Agreement and, so far as Rank is aware, the independence provisions included in the Relationship Agreement have been complied with during the period under review by the Controlling Shareholder and its associates. So far as Rank is aware, the procurement obligations included in the Relationship Agreement have been complied with during the period under review by the Controlling Shareholder.

**Interests of 3% or more**

The following interests of 3% or more of the total voting rights attached to ordinary shares have been notified to the Company in accordance with the FCA's DTRs. Due to the fact that the DTRs only require notification where the percentage voting rights reach, exceed or fall below 3% and each 1% threshold above 3%, there is a difference between disclosures made pursuant to the DTRs and those disclosed in responses to Section 793 of the CA 2006 notices issued by the Company. Included below are voting rights in respect of both DTR disclosures and Section 793 CA 2006 responses up to and including 31 July 2017.

Date last notified under DTR	Shareholder	As per FCA DTR disclosures as at 16 Aug 2017		As per Section 793 CA 2006 Enquiry responses as at 30 Jun 2017		As per Section 793 CA 2006 Enquiry responses as at 31 Jul 2017	
		% held	Voting rights	% held	Voting rights	% held	Voting rights
28 July 2015	Hong Leong Co. (Malaysia) Berhad	56.09%	219,120,221	56.16%	219,420,221	56.16%	219,420,221
10 Dec 2015	Ameriprise Financial, Inc. and its group of companies (Threadneedle Retail Funds – Linked Strategies)	7.65%	29,870,389	9.46%	36,948,090	9.44%	36,896,971
9 Mar 2012	Prudential plc and subsidiary companies	5.85%	22,878,293	7.95%	31,044,982	8.02%	31,330,126
31 May 2017	Artemis Investment Management LLP	4.94%	19,287,793	4.73%	18,489,823	4.73%	18,489,823
–	JO Hambro Capital Management	–	–	3.10%	12,105,159	3.23%	12,606,895

Under LR 6.1.19 R, shares held by persons who have an interest in 5% or more of a listed company's share capital are not regarded as being in public hands (the 'free float'). Under this rule, the shares held by Hong Leong, Ameriprise and Prudential are not regarded as being in public hands. The Company's free float position as at 30 June 2017 was 25.75%.

### ***Rights and restrictions attaching to shares***

#### ***Voting rights***

Each ordinary share carries the right to one vote at general meetings of the Company.

#### ***Meeting rights***

Registered holders of ordinary shares are entitled to attend and speak at general meetings and to appoint proxies.

#### ***Information rights***

Holders of ordinary shares are entitled to receive the Company's annual report and financial statements.

#### ***Share transfer restrictions***

There are no specific restrictions on the transfer of shares contained in the Company's articles of association.

The Company is not aware of any agreements between the holders of Rank shares that may result in restrictions on the transfer of shares or that may result in restrictions on voting rights.

#### ***Variation of rights***

Subject to applicable legislation, the rights attached to Rank's ordinary shares may be varied with the written consent of the holders of at least three-quarters in nominal value of those shares, or by a special resolution passed at a general meeting of the ordinary shareholders.

### ***Directors' powers in relation to shares***

#### ***Allotment and issue of shares***

Subject to the provisions of the CA 2006, and subject to any resolution passed by the Company pursuant to the CA 2006 and other shareholder rights, shares in Rank may be issued with such rights and restrictions as the Company may by ordinary resolution decide. If there is no such resolution or so far as the Company does not make specific provision, they may be issued as Rank's board of directors may decide. Subject to the Company's articles of association, the CA 2006 and other shareholder rights, unissued shares are at the disposal of the board.

The Company currently has no shareholder authority to allot and grant rights over any proportion of the Company's unissued share capital, nor does it have shareholders' authority to allot and grant rights over ordinary shares without first making a pro-rata offer to all existing ordinary shareholders. Neither of these authorities is required for the purpose of allotting shares pursuant to employee share schemes. Since the board has no present intention of allotting shares for any other reason, these shareholder authorities will not be sought at the forthcoming annual general meeting.

#### ***Market purchases of own shares***

The Company currently has no shareholder authority to make market purchases of its own shares. Shareholder approval will be sought at the 2017 annual general meeting to obtain the standard authority for one year.

### ***Directors' other powers***

Subject to legislation, the directors may exercise all the powers permitted by the Company's memorandum and articles of association. A copy of these can be obtained by writing to the company secretary, or from Companies House.

### ***Articles of association***

During the year, the Company reviewed its articles of association and at the forthcoming annual general meeting will be proposing changes, details of which are set out in the notice of annual general meeting.

The articles contain provisions to empower the directors in certain specific matters, including:

- ◇ appointment of directors, subject to subsequent shareholder approval;
- ◇ delegation of powers to a director, secretary or committee of one or more persons;
- ◇ the Company's powers to borrow money; and
- ◇ the ability of a director to vote on matters in which he has an interest.

Changes to the Company's articles of association can only be made by a resolution passed by a majority of no less than 75% of shareholders.

### ***Change of control***

Rank's principal term loan and credit facility agreements contain provisions that, on a change of control of Rank, immediate repayment can be demanded of all advances and any accrued interest.

The provisions of the Company's share schemes and incentive plans may cause options and awards granted to employees to vest in the event of a takeover.

A change of control may also affect licences to operate, as specified in the provisions of the Gambling Act 2005 and the Alderney eGambling Regulations 2009 (as amended) and the Belgian Games of Chance Act 1999 (as amended).

### ***Political donations***

No political donations were made during the period under review.

It has been Rank's long-standing practice not to make cash payments to political parties and the board intends that this will remain the case. However, the CA 2006 is very broadly drafted and could catch activities such as funding seminars and other functions to which politicians are invited, supporting certain bodies involved in policy review and law reform and matching employees' donations to certain charities. Accordingly, as in previous years, the directors will be seeking shareholders' authority for political donations and political expenditure at the forthcoming annual general meeting in case any of Rank's activities are inadvertently caught by the legislation.

By order of the board

**Frances Bingham**  
Company Secretary  
16 August 2017

## DIRECTORS' RESPONSIBILITIES

### Annual report and financial statements

The directors are responsible for preparing the annual report (including the directors' report, the strategic report, the directors' remuneration report and the corporate governance statement) and the financial statements of the Group and the Company, in accordance with applicable United Kingdom law and regulations. Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law, the directors are required to prepare Group financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. As permitted by the Companies Act 2006, the directors have elected to prepare the Company financial statements under IFRS as adopted by the European Union. Under company law the directors must not approve the Group and Company financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the Group and Company financial statements, the directors are required to:

- ◇ present fairly the financial position, financial performance and cash flows of the Group and Company;
- ◇ select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- ◇ present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- ◇ make judgements that are reasonable;
- ◇ provide additional disclosures when compliance with the specific requirements in IFRS as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company's financial position and final performance; and
- ◇ state whether the financial statements have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements.

### Accounting records

The directors must keep proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Company and the Group and ensure that the Group financial statements comply with the Companies Act 2006 and, for the Group financial statements, Article 4 of the International Accounting Standard (IAS) Regulation.

### Safeguarding assets

The directors are also accountable for safeguarding the assets of the Company and the Group and, therefore, for taking reasonable steps to prevent and detect fraud and other irregularities.

### Corporate website

The maintenance and integrity of Rank's corporate website, on which this annual report and financial statements are published, is the board's responsibility. We would draw attention to the fact that legislation in the UK on the preparation and publication of financial statements may differ from that in other jurisdictions.

### Statement of directors' responsibilities

The annual report and financial statements are the responsibility of, and have been approved by, the directors.

Each of the directors named on pages 50 and 51 confirms that to the best of his/her knowledge:

- ◇ the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy;
- ◇ the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- ◇ the strategic report includes a review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the risks and uncertainties that they face.

On behalf of the Board

**Henry Birch**  
Chief Executive  
16 August 2017

**Clive Jennings**  
Finance Director  
16 August 2017

# FINANCIAL STATEMENTS

## INDEPENDENT AUDITORS REPORT

*p90*

## GROUP INCOME STATEMENT

*p98*

## GROUP STATEMENT OF COMPREHENSIVE INCOME

*p99*

## BALANCE SHEETS

*p100*

## STATEMENTS OF CHANGES IN EQUITY

*p101*

## STATEMENTS OF CASH FLOW

*p102*

## NOTES TO THE FINANCIAL STATEMENTS

*p103*

## UNAUDITED APPENDIX TO FINANCIAL STATEMENTS FIVE YEAR REVIEW

*p145*

## OTHER INFORMATION SHAREHOLDER INFORMATION

*p146*

## GLOSSARY

*p148*



## INDEPENDENT AUDITOR'S REPORT

## To the members of The Rank Group Plc

**Opinion**

In our opinion:

- ◇ The Rank Group plc's Group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2017 and of the Group's profit for the year then ended;
- ◇ the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and, in the case of the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- ◇ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of The Rank Group Plc which comprise:

Group	Parent company
Balance sheet as at 30 June 2017	Balance sheet as at 30 June 2017
Group income statement for the year then ended	Statement of changes in equity for the year then ended
Group statement of comprehensive income for the year then ended	Statement of cash flow for the year then ended
Statement of changes in equity for the year then ended	Related notes 1 to 32 to the financial statements including a summary of significant accounting policies
Statement of cash flow for the year then ended	
Related notes 1 to 32 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Conclusions relating to principal risks, going concern and viability statement**

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- ◇ the disclosures in the annual report set out on pages 40-44 that describe the principal risks and explain how they are being managed or mitigated;
- ◇ the directors' confirmation set out on page 40 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- ◇ the directors' statement set out on page 41 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- ◇ whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- ◇ the directors' explanation set out on page 41 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Overview of our audit approach

<b>Materiality</b>	<ul style="list-style-type: none"> <li>Overall Group materiality of £3.9 million (2015/16: £3.8 million) which represents 5% of profit before tax adjusted for exceptional items. In our assessment profit before tax, adjusted for exceptional items, provides us with a consistent year on year basis for determining materiality and is the most relevant performance measure to the stakeholders of the entity.</li> </ul>
<b>Audit scope</b>	<ul style="list-style-type: none"> <li>We performed an audit of the complete financial information of six (2015/16: six) components and audit procedures on specific balances for a further eight (2015/16: seven) components.</li> <li>The components where we performed full or specific audit procedures accounted for 100% (2015/16: 98%) of profit before tax adjusted for exceptional items, 100% (2015/16: 100%) of Revenue and 100% (2015/16: 99%) of Total Assets.</li> </ul>
<b>Key audit matters</b>	<ul style="list-style-type: none"> <li>Revenue recognition including the risk of management override.</li> <li>Impairment of tangible and intangible assets and adequacy of property lease provisions.</li> <li>Indirect tax risk exposures.</li> <li>Exceptional items including restructuring costs.</li> </ul>
<b>What has changed?</b>	<ul style="list-style-type: none"> <li>In the prior year, our auditor's report included a key audit matter in relation to the migration of data to the new online gaming platform. As the migration was a non-recurring event that occurred in the prior year, this was not viewed as a key audit matter for the year ended 30 June 2017. In the current year we assessed that the risk relating to exceptional items including restructuring cost was heightened due to the additional costs that were included in exceptional items for the restructuring undertaken by the Group.</li> </ul>

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Revenue recognition: £707.2 million (2015/16: £708.5 million)</b>  Refer to the Audit Committee Report (page N/A); Accounting policies (page 104); and Note 2 of the Consolidated Financial Statements (page 110)</p> <p>Our assessment is that the vast majority of revenue transactions, for both the venues and digital businesses, are non-complex, with no judgement applied over the amount recorded. We consider there is a potential for management override to achieve revenue targets via topside manual journal entries posted to revenue. Revenue could be inaccurately stated as a result.</p>	<p>Our procedures were designed to corroborate our assessment that revenue should be closely aligned to cash banked (for the Retail business), and to customer balances and cash (for the Digital business), and to identify the manual adjustments that are made to revenue for further testing.</p> <p>We updated our understanding of the revenue processes and tested certain key financial and IT controls over the recognition and measurement of revenue.</p> <p>We used our computer aided analytics tools to perform a correlation analysis to identify the extent to which revenue was linked to cash (for UK venues) and customer balances (for Digital), then investigated and obtained explanations for those items above a specified threshold where this was not the case.</p> <p>Using data extracted from the accounting system, we tested the appropriateness of journal entries impacting revenue, as well as other adjustments made in the preparation of the financial statements. We identified and tested specific journals such as those manually posted directly to revenue, outside of expected hours, or by unexpected individuals and for large or unusual amounts.</p> <p>We also verified the recognition and measurement of revenue by tracing a sample of transactions, selected at random, throughout the year to source data to verify the accuracy of reported revenue.</p> <p>For venues, we attended and re-performed cash counts at a sample of nineteen casino and bingo venues, selected using a risk based approach and also included a random sample, at year end to verify the appropriate cut-off of revenue.</p> <p>For Digital, we reconciled the year-end customer balances to the system report, which was tested for completeness and accuracy.</p>	<p>→</p> <p>We concluded that revenue recognition, and adjustments to revenue, are appropriate.</p>

## INDEPENDENT AUDITOR'S REPORT CONTINUED

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Impairment of tangible and intangible assets and adequacy of property lease provisions</b>  Refer to the Audit Committee Report (page 62); Accounting policies (page 107); and Note 12 of the Consolidated Financial Statements (page 122)</p> <p>At 30 June 2017 the carrying value of tangible and intangible assets was £599.4 million, £241.6 million of which relate to indefinite life intangible assets (primarily casino and other gaming licences) or goodwill.</p> <p>In accordance with IAS 36 Impairment of Assets, management disclosed that in addition to the impairment charge of £7.7 million and impairment reversal of £2.5 million, a reasonably possible change in customer visits, win margins or spend per head could lead to impairments in other Cash Generating Units ('CGU') where no impairment is currently recognised.</p> <p>This is an area of focus due to the significance of the carrying value of the assets being assessed and due to the level of management judgement required in the assumptions impacting the impairment assessment. The main assumptions are the future results of the business including future cash flows, growth rates and earnings multiples applied to cash flows as well as discount rates.</p> <p>In addition, the Group holds a provision for property leases of £24.6 million for unoccupied properties and properties which are trading at a loss. In determining the appropriate level of provision required, management judgement is required in assessing whether the costs provided represent the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil the contract.</p> <p>In accordance with IAS 37, management recognised a credit to the income statement of £14.6 million relating to onerous property lease contracts exited during the period and a charge of £1.2 million for additional provisions. There is a high level of management judgement required in the assumptions impacting the assessment and the sensitivity of the model. This is primarily the amount of sub-let income and period for which sub-let income can be obtained where properties are vacant or the extent to which lease obligations are covered by earnings generated. We therefore consider there is a higher likelihood that a material misstatement could arise as there is a risk that these provisions may be incorrectly valued.</p>	<p>We updated our understanding of management's annual impairment testing process.</p> <p>We ensured that the methodology of the impairment exercise continues to be consistent with the requirements of IAS 36 – Impairment of Assets.</p> <p>We assessed the forecasts underlying the impairment review and agreed to budgets approved by the Board, reviewing these against actual performance and historic accuracy of forecasting. We also performed sensitivity analysis on earnings multiples for all CGUs and growth rates applied to cash flows for certain CGUs to determine the parameters that should they arise, may give a different conclusion as to the carrying value of assets assessed.</p> <p>We validated other key assumptions such as discount rates to supporting evidence and corroborated these to industry averages/trends with the assistance of EY internal experts.</p> <p>We compared the individual CGU projections to historic performance and observable external trends and corroborated the reasons for deviations to third party evidence as appropriate.</p> <p>For property lease provisions we understood management's process for identifying onerous leases and validated that the inputs to the calculations for onerous lease provisions were appropriate. This included assessing the recoverability of sub-let income and comparing forecast earnings to historic performance, to determine whether appropriate provision had been made. This also included an assessment of whether the appropriate discount rate had been applied by checking the discount rate to external market data.</p> <p>We checked underlying calculations and agreed key inputs to third party evidence including lease agreements and invoices for rent and rates.</p> <p>For property leases that were exited, we obtained lease exit agreements.</p>	<p>→</p> <p>The net impairment charge of £5.5 million and onerous lease release of £14.7 million is appropriately recognised. We highlighted that a reasonably possible change in certain key assumptions underpinning the forecasts for certain CGUs could lead to additional impairment. We concluded that the property provisions recognised are appropriate.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Indirect taxation: £222.2 million contributed to indirect taxes (2015/16: £245.5 million)</b>  Refer to the Audit Committee Report (page 63); Accounting policies (page 108); and Note 21 of the Consolidated Financial Statements (page 136)</p> <p>Indirect tax is a complex area in the betting and gaming industry. We focus on this to ensure that all changes to legislation and rates levied have been correctly applied. Judgement is also applied in estimating amounts payable to regulatory authorities in certain jurisdictions. Due to the complexity of regulations and also the level of management judgement required in determining if an assessment could give rise to an additional liability, this gives rise to a risk over the completeness of amounts recorded related to indirect taxation.</p>	<p>We updated our understanding of the process for preparing the partial exemption calculation, and assessed the controls that management has in place to prevent and detect errors in this calculation.</p> <p>We employed tax specialists to assist the audit team in reviewing the technical support for indirect tax submissions and to perform a review for completeness of effected changes in indirect tax legislation to check they had been appropriately reflected.</p> <p>We reviewed correspondence received from tax authorities during the period in order to assess the completeness of uncertain tax positions and to corroborate management's position. We have involved our indirect taxation specialists in assessing the implications of matters subject to correspondence received from tax authorities.</p>	<p>→</p> <p>We conclude that the positions taken by management are appropriate and accurately reflected in the financial results.</p>
<p><b>Exceptional items including restructuring costs, net credit of £1.0 million (2015/16: net credit of £12.9 million)</b>  Refer to the Audit Committee Report (page 62); Accounting policies (page 109); and Note 4 of the Consolidated Financial Statements (page 114)</p> <p>The application of the Group's accounting policy for exceptional items requires judgement by management and careful consideration needs to be given to the nature and magnitude of these items to ensure consistency in approach between periods. Due to the magnitude of these items and the level of judgement required, we consider there to be a potential for inappropriate classification of costs as exceptional items.</p> <p>In the current year management have recognised net exceptional income of £1.0 million comprising of a net release of property provisions of £14.7 million, restructuring costs of £8.8 million, net impairment charge of £4.2 million and aborted acquisition costs of £0.7 million.</p>	<p>We agreed material exceptional items to supporting documentation. We also validated that the exceptional items are classified as such in accordance with the Group's accounting policy and regulatory guidance.</p> <p>We performed specific audit procedures to test the appropriateness of the costs recognised related to the restructuring, which included:</p> <ul style="list-style-type: none"> <li>◇ Confirming that there is a detailed formal plan in place, represented by a business case that had gone through the appropriate approval process;</li> <li>◇ Confirming that a valid expectation had been raised to affected employees, represented by a formal announcement;</li> <li>◇ Corroborating management's assumptions where the cost to the business is estimated at the year-end; and</li> <li>◇ Testing a sample of employees selected at random to validate that the costs recognised are accurate.</li> </ul> <p>We also performed an assessment of costs that had been included within the exceptional restructuring charge to validate that they were associated to the restructuring and therefore classified appropriately as an exceptional item.</p>	<p>↑</p> <p>Exceptional items have been disclosed in accordance with the Group's accounting policy.</p>

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial

statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £3.9 million (2015/16: £3.8 million), which is 5% (2015/16: 5%) of profit before tax adjusted for exceptional items. In our assessment profit before tax adjusted for exceptional items provides us with a consistent year on year basis for determining materiality and is the most relevant performance measure to the stakeholders of the entity.



◇ Profit before tax for the year ended 30 June 2017 – £79.7 million

◇ Net release from onerous property leases – £14.7 million

◇ Net impairment charge – £4.2 million

◇ Group restructuring including relocation costs – £8.8 million

◇ Aborted acquisition costs – £0.7 million

◇ Profit before tax adjusted for exceptional items (basis for materiality) – £78.7 million

◇ Materiality of £3.9 million (5% of profit before tax adjusted for exceptional items) – £3.9 million



**INDEPENDENT AUDITOR'S REPORT** CONTINUED**Performance materiality**

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2015/16: 50%) of our planning materiality, namely £2.0 million (2015/16: £1.9 million). We continue to set performance materiality at this percentage to take into account the inherently high risk nature of the industry in which the Group operates. We have also taken into consideration changes within the Group including restructuring and the impact this could have on the operations of the Group. Our objective in adopting this approach was to conclude that undetected audit differences in all accounts did not exceed our planning materiality level.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.1 million to £1.1 million (2015/16: £0.1 million to £1.4 million).

**Reporting threshold**

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.2 million (2015/16: £0.2 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

**An overview of the scope of our audit*****Tailoring the scope***

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the thirty one (2015/16: thirty two) reporting components of the Group, we selected fourteen (2015/16: thirteen) components covering entities within the United Kingdom, Alderney, Spain, Belgium and Gibraltar, which represent the principal business units within the Group.

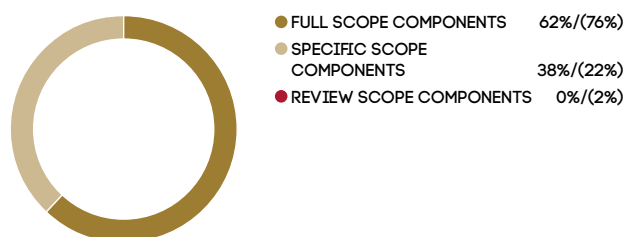
Of the fourteen (2015/16: thirteen) components selected, we performed an audit of the complete financial information of six (2015/16: six) components ("full scope components") which were selected based on their size or risk characteristics. For the remaining eight (2015/16: seven) components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed full or specific audit procedures accounted for 100% (2015/16: 98%) of the Group's Profit before tax adjusted for exceptional items, 100% (2015/16: 100%) of the Group's Revenue and 100% (2015/16: 99%) of the Group's Total assets. For the current year, the full scope components contributed 62% (2015/16: 76%) of the Group's Profit before tax adjusted for exceptional items, 91% (2015/16: 92%) of the Group's Revenue and 81% (2015/16: 84%) of the Group's Total Assets. The specific scope components contributed 38% (2015/16: 22%) of the Group's Profit before tax adjusted for exceptional items, 9% (2015/16: 8%) of the Group's Revenue and 19% (2015/16: 15%) of the Group's Total Assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group.

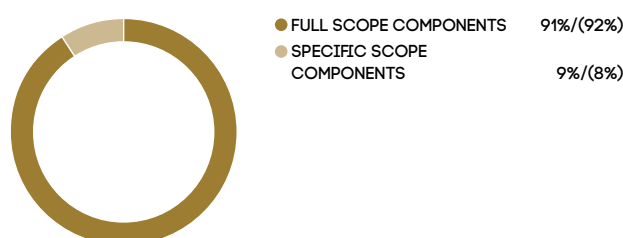
Of the remaining seventeen (2015/16: nineteen) components that together represent 0% of the Group's Profit before tax adjusted for exceptional items, none are individually greater than 1% (2015/16: 1%) of the Group's Profit before tax adjusted for exceptional items. For these components, we performed other procedures, including analytical review, testing of consolidation journals, intercompany eliminations and foreign currency translations to respond to any potential risks of material misstatement to the Group financial statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.

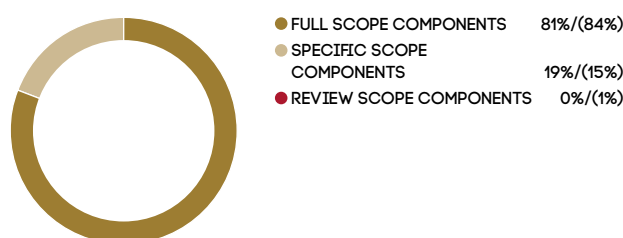
#### TOTAL PROFIT BEFORE TAX ADJUSTED FOR EXCEPTIONAL ITEMS COVERAGE CY/(PY)



#### TOTAL REVENUE COVERAGE CY/(PY)



#### TOTAL ASSETS COVERAGE CY/(PY)



#### Changes from the prior year

There are no significant changes in the scoping from the prior year. The coverage of profit before tax adjusted for exceptional items from our audit of full scope components has decreased from prior year as a result of increased profits reported by the component in Spain which is designated as a specific scope component. The key audit matters for the Group were subject to full audit procedures at each of the full and specific scope locations with significant revenue streams and balances.

#### Integrated team structure

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the six full scope components, audit procedures were performed on all six of these directly by the primary audit team. For the eight specific scope components, specific audit procedures were performed directly by the primary audit team for seven of these components. The final specific scope component is based in Spain where the work was performed by component auditors.

In relation to the specific scope component in Spain, the Senior Statutory Auditor was also involved in the risk assessment and determining which accounts were in scope and attended the audit closing meeting by conference call, made specific enquiries of local management and reviewed the summary audit findings reported by the local audit team.

#### Other information

The other information comprises the information included in the annual report, including the five year review and shareholder information set out on pages 145-148, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

**INDEPENDENT AUDITOR'S REPORT** CONTINUED

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- ◇ Fair, balanced and understandable set out on page 88 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- ◇ Audit committee reporting set out on page 59 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee is materially inconsistent with our knowledge obtained in the audit; or
- ◇ Directors' statement of compliance with the UK Corporate Governance Code set out on page 54 – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- ◇ the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- ◇ the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- ◇ information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

#### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- ◇ the strategic report or the directors' report; or
- ◇ the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- ◇ adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- ◇ the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- ◇ certain disclosures of directors' remuneration specified by law are not made; or
- ◇ we have not received all the information and explanations we require for our audit
- ◇ a Corporate Governance Statement has not been prepared by the company

#### **Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 88, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view in accordance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

### Our approach was as follows

- ◇ We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are The UK Gambling Commission, Gambling Act 2005, Money Laundering regulations, The Alderney Gambling Control Commission and License Conditions & The Code of Practice 2008.
- ◇ We understood how The Rank Group Plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through our review of board minutes, papers provided to the Audit and Risk Committees and correspondence received from regulatory bodies.
- ◇ We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by meeting with management within various parts of the business to understand where they considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.

- ◇ Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures included a review of board minutes to identify any noncompliance with laws and regulations, a review of the reporting to the Audit Committee on compliance with regulations, enquiries of the Director of Legal Services and enquiries of management.
- ◇ The Group operates in the gaming industry which is a highly regulated environment. As such the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of an expert where appropriate.
- ◇ As the gaming industry is highly regulated, we have obtained an understanding of the regulations and the potential impact on the Group and in assessing the control environment we have considered the compliance of the Group to these regulations as part of our audit procedures, which included a review of correspondence received from the regulator.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### Other matters we are required to address

- ◇ Following the recommendation of the audit committee, we were appointed as auditors by the Audit Committee and signed an engagement letter on 31 July 2017. We were appointed by the company at the annual general meeting on 22 April 2010 to audit the financial statements for the year ending 31 December 2010 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is eight periods, covering the periods ending 31 December 2010 to 30 June 2017.
- ◇ The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company and we remain independent of the Group and the Company in conducting the audit.
- ◇ The audit opinion is consistent with the additional report to the audit committee.

### Julie Carlyle

Senior statutory auditor  
for and on behalf of Ernst & Young LLP,  
Statutory Auditor  
London  
16 August 2017



**GROUP INCOME STATEMENT** FOR THE YEAR ENDED 30 JUNE 2017

		Year ended 30 June 2017			Year ended 30 June 2016		
	Note	Before exceptional items £m	Exceptional items (note 4) £m	Total £m	Before exceptional items £m	Exceptional items (note 4) £m	Total £m
Continuing operations							
Revenue before adjustment for customer incentives	2	755.1	–	755.1	753.0	–	753.0
Customer incentives	2	(47.9)	–	(47.9)	(44.5)	–	(44.5)
Revenue	2	707.2	–	707.2	708.5	–	708.5
Cost of sales		(391.4)	–	(391.4)	(391.7)	–	(391.7)
Gross profit		315.8	–	315.8	316.8	–	316.8
Other operating costs		(232.3)	1.0	(231.3)	(234.4)	(0.7)	(235.1)
Other operating income		–	–	–	–	10.0	10.0
Group operating profit	2,3	83.5	1.0	84.5	82.4	9.3	91.7
Financing:							
◊ finance costs		(4.4)	–	(4.4)	(5.3)	–	(5.3)
◊ finance income		0.2	–	0.2	0.2	–	0.2
◊ other financial losses		(0.6)	–	(0.6)	(1.1)	–	(1.1)
Total net financing charge	5	(4.8)	–	(4.8)	(6.2)	–	(6.2)
Profit before taxation		78.7	1.0	79.7	76.2	9.3	85.5
Taxation	6	(15.6)	(1.2)	(16.8)	(14.8)	0.4	(14.4)
Profit (loss) for the year from continuing operations		63.1	(0.2)	62.9	61.4	9.7	71.1
Discontinued operations	4	–	–	–	–	3.6	3.6
Profit (loss) for the year		63.1	(0.2)	62.9	61.4	13.3	74.7
Attributable to:							
Equity holders of the parent		63.1	(0.2)	62.9	61.4	13.3	74.7
Earnings (loss) per share attributable to equity shareholders							
◊ basic	9	16.2p	(0.1)p	16.1p	15.7p	3.4p	19.1p
◊ diluted	9	16.1p	(0.1)p	16.0p	15.7p	3.4p	19.1p
Earnings (loss) per share – continuing operations							
◊ basic	9	16.2p	(0.1)p	16.1p	15.7p	2.5p	18.2p
◊ diluted	9	16.1p	(0.1)p	16.0p	15.7p	2.5p	18.2p
Earnings per share – discontinued operations							
◊ basic	9	–	–	–	–	0.9p	0.9p
◊ diluted	9	–	–	–	–	0.9p	0.9p

Details of dividends paid and payable to equity shareholders are disclosed in note 8.

**GROUP STATEMENT OF COMPREHENSIVE INCOME** FOR THE YEAR ENDED 30 JUNE 2017

	Note	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
<b>Comprehensive income:</b>			
Profit for the year		62.9	74.7
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
Exchange adjustments net of tax		2.3	4.5
<b>Items that will not be reclassified to profit or loss:</b>			
Actuarial loss on retirement benefits net of tax	28	(0.6)	(0.1)
<b>Total comprehensive income for the year</b>		<b>64.6</b>	<b>79.1</b>
<b>Attributable to:</b>			
Equity holders of the parent		64.6	79.1

The tax effect of items of comprehensive income is disclosed in note 6.

**BALANCE SHEETS** AT 30 JUNE 2017

	Note	Group		Company	
		As at 30 June 2017 £m	As at 30 June 2016 £m	As at 30 June 2017 £m	As at 30 June 2016 £m
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets	10	411.5	404.3	–	–
Property, plant and equipment	11	187.9	202.0	–	–
Investments in subsidiaries	13	–	–	1,394.8	1,441.7
Deferred tax assets	20	0.1	1.3	–	–
Other receivables	15	6.5	6.5	–	–
		606.0	614.1	1,394.8	1,441.7
<b>Current assets</b>					
Inventories	14	2.8	2.9	–	–
Other receivables	15	25.3	36.2	–	–
Income tax receivable	17	0.3	0.4	–	–
Cash and short-term deposits	25	79.0	61.0	0.4	0.2
		107.4	100.5	0.4	0.2
<b>Total assets</b>		<b>713.4</b>	<b>714.6</b>	<b>1,395.2</b>	<b>1,441.9</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Trade and other payables	16	(128.9)	(139.3)	(1.7)	(1.8)
Income tax payable	17	(12.7)	(11.0)	–	–
Financial liabilities					
◊ financial guarantees	18	–	–	(0.9)	(1.7)
◊ loans and borrowings	18	(34.6)	(14.4)	(861.5)	(864.8)
Provisions	21	(10.0)	(9.2)	(0.3)	–
		(186.2)	(173.9)	(864.4)	(868.3)
<b>Net current liabilities</b>		<b>(78.8)</b>	<b>(73.4)</b>	<b>(864.0)</b>	<b>(868.1)</b>
<b>Non-current liabilities</b>					
Trade and other payables	16	(31.8)	(34.7)	–	–
Financial liabilities					
◊ loans and borrowings	18	(57.0)	(87.8)	–	–
Deferred tax liabilities	20	(19.9)	(21.0)	–	(0.1)
Provisions	21	(23.7)	(40.9)	(1.0)	–
Retirement benefit obligations	28	(4.2)	(3.7)	–	–
		(136.6)	(188.1)	(1.0)	(0.1)
<b>Total liabilities</b>		<b>(322.8)</b>	<b>(362.0)</b>	<b>(865.4)</b>	<b>(868.4)</b>
<b>Net assets</b>		<b>390.6</b>	<b>352.6</b>	<b>529.8</b>	<b>573.5</b>
<b>Capital and reserves attributable to the Company's equity shareholders</b>					
Share capital	22	54.2	54.2	54.2	54.2
Share premium		98.4	98.4	98.4	98.4
Capital redemption reserve		33.4	33.4	33.4	33.4
Exchange translation reserve		15.8	13.5	–	–
Unrealised profit reserve		–	–	159.8	159.8
Retained earnings		188.8	153.1	184.0	227.7
<b>Total shareholders' equity</b>		<b>390.6</b>	<b>352.6</b>	<b>529.8</b>	<b>573.5</b>

The loss for the year ended 30 June 2017 for the Company was £17.1m (year ended 30 June 2016: loss of £23.9m).

These financial statements were approved by the board on 16 August 2017 and signed on its behalf by:

**Henry Birch**, Chief Executive  
**Clive Jennings**, Finance Director

**STATEMENTS OF CHANGES IN EQUITY** FOR THE YEAR ENDED 30 JUNE 2017

Group	Share capital £m	Share premium £m	Capital redemption reserve £m	Exchange translation reserve £m	Retained earnings (losses) £m	Total £m
<b>At 1 July 2015</b>	54.2	98.4	33.4	9.0	99.4	294.4
<b>Comprehensive income:</b>						
Profit for the year	–	–	–	–	74.7	74.7
<b>Other comprehensive income:</b>						
Exchange adjustments net of tax	–	–	–	4.5	–	4.5
Actuarial loss on retirement benefits net of tax	–	–	–	–	(0.1)	(0.1)
<b>Total comprehensive income for the year</b>	–	–	–	4.5	74.6	79.1
<b>Transactions with owners:</b>						
Dividends paid to equity holders (see note 8)	–	–	–	–	(22.7)	(22.7)
Credit in respect of employee share schemes including tax	–	–	–	–	1.8	1.8
<b>At 30 June 2016</b>	54.2	98.4	33.4	13.5	153.1	352.6
<b>Comprehensive income:</b>						
Profit for the year	–	–	–	–	62.9	62.9
<b>Other comprehensive income:</b>						
Exchange adjustments net of tax	–	–	–	2.3	–	2.3
Actuarial loss on retirement benefits net of tax	–	–	–	–	(0.6)	(0.6)
<b>Total comprehensive income for the year</b>	–	–	–	2.3	62.3	64.6
<b>Transactions with owners:</b>						
Dividends paid to equity holders (see note 8)	–	–	–	–	(26.2)	(26.2)
Refund of unclaimed dividends (see note 8)	–	–	–	–	0.2	0.2
Debit in respect of employee share schemes including tax	–	–	–	–	(0.6)	(0.6)
<b>At 30 June 2017</b>	54.2	98.4	33.4	15.8	188.8	390.6

There were no non-controlling interests in either year.

Company	Share capital £m	Share premium £m	Capital redemption reserve £m	Unrealised profit reserve £m	Retained earnings (losses) £m	Total £m
<b>At 1 July 2015</b>	54.2	98.4	33.4	159.8	272.5	618.3
Loss and total comprehensive expense for the year	–	–	–	–	(23.9)	(23.9)
<b>Transactions with owners:</b>						
Dividends paid to equity holders (see note 8)	–	–	–	–	(22.7)	(22.7)
Credit in respect of employee share schemes including tax	–	–	–	–	1.8	1.8
<b>At 30 June 2016</b>	54.2	98.4	33.4	159.8	227.7	573.5
Loss and total comprehensive expense for the year	–	–	–	–	(17.1)	(17.1)
<b>Transactions with owners:</b>						
Dividends paid to equity holders (see note 8)	–	–	–	–	(26.2)	(26.2)
Refund of unclaimed dividends (see note 8)	–	–	–	–	0.2	0.2
Debit in respect of employee share schemes including tax	–	–	–	–	(0.6)	(0.6)
<b>At 30 June 2017</b>	54.2	98.4	33.4	159.8	184.0	529.8

The unrealised profit reserve relates to the Company's investment in subsidiary undertakings.



**STATEMENTS OF CASH FLOW** FOR THE YEAR ENDED 30 JUNE 2017

	Note	Group		Company	
		Year ended 30 June 2017 £m	Year ended 30 June 2016 £m	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
<b>Cash flows from operating activities</b>					
Cash generated from operations	23	116.3	110.2	0.1	–
Interest received		0.2	0.1	–	–
Interest paid		(3.2)	(5.0)	–	–
Tax paid		(14.7)	(31.1)	–	–
Discontinued operations		–	4.1	–	–
<b>Net cash from operating activities</b>		<b>98.6</b>	<b>78.3</b>	<b>0.1</b>	<b>–</b>
<b>Cash flows from investing activities</b>					
Disposal of subsidiaries (net of cash disposed)	24	–	(0.2)	–	–
Purchase of intangible assets		(13.1)	(14.5)	–	–
Purchase of property, plant and equipment		(29.6)	(38.2)	–	–
Proceeds from sale of property, plant and equipment		–	12.3	–	–
Purchase of convertible loan note	15	–	(1.1)	–	–
<b>Net cash used in investing activities</b>		<b>(42.7)</b>	<b>(41.7)</b>	<b>–</b>	<b>–</b>
<b>Cash flows from financing activities</b>					
Dividends paid to equity holders		(26.2)	(22.7)	(26.2)	(22.7)
Refund of unclaimed dividends		0.2	–	0.2	–
Repayment of term loans		(10.0)	(130.0)	–	–
Drawdown of term loans		–	90.0	–	–
Finance lease principal payments		(1.3)	(2.8)	–	–
Loan arrangement fees		–	(1.5)	–	–
Amounts received from subsidiaries		–	–	26.1	22.7
<b>Net cash used in financing activities</b>		<b>(37.3)</b>	<b>(67.0)</b>	<b>0.1</b>	<b>–</b>
<b>Net increase (decrease) in cash, cash equivalents and bank overdrafts</b>		<b>18.6</b>	<b>(30.4)</b>	<b>0.2</b>	<b>–</b>
Effect of exchange rate changes		–	0.8	–	–
Cash and cash equivalents at start of year		57.9	87.5	0.2	0.2
<b>Cash and cash equivalents at end of year</b>	25	<b>76.5</b>	<b>57.9</b>	<b>0.4</b>	<b>0.2</b>

## 1 General information and accounting policies

### General information

The Rank Group Plc ('the Company') and its subsidiaries (together 'the Group') operate gaming services in Great Britain (including the Channel Islands), Spain and Belgium.

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in England and Wales under registration number 03140769. The address of its registered office is TOR, Saint-Cloud Way, Maidenhead, SL6 8BN.

### Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and Company financial statements are set out below. These policies have been consistently applied to all periods presented.

#### 1.1 Basis of preparation

The consolidated and Company financial statements have been prepared under the historical cost convention.

##### 1.1.1 Statement of compliance

The consolidated and Company financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRIC Interpretations as adopted by the European Union, and the Companies Act 2006 applicable to companies reporting under IFRS.

##### 1.1.2 Going concern

In adopting the going concern basis for preparing the consolidated and Company financial statements, the directors have considered the issues impacting the Group during the period as detailed in the strategic report on pages 1 to 48 and have reviewed the Group's projected compliance with its banking covenants detailed in the financial review on page 38. Based on the Group's cash flow forecasts and operating budgets, the directors believe that the Group will generate sufficient cash to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and comply with its banking covenants. Accordingly the adoption of the going concern basis remains appropriate.

##### 1.1.3 Accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The resulting accounting estimates will, by definition, seldom equal the actual results. The areas involving a higher degree of judgement or complexity, where assumptions and estimates are significant to the consolidated financial statements, are set out below.

##### (a) Estimated impairment of goodwill, intangible assets and property, plant and equipment

Details of the Group's accounting policy in relation to impairments and impairment reversals are disclosed in note 1.13.

The application of the policy requires the use of accounting estimates and judgements in determining the recoverable amount of cash-generating units to which the goodwill, intangible assets and property, plant and equipment are associated. The recoverable amount is the higher of the fair value less costs of disposal and value in use. Estimates of fair value less costs of disposal are performed internally by experienced senior management supported by knowledge of similar transactions and advice from external experts or, if applicable, offers received. Value in use is calculated using estimated cash flow projections from financial budgets, discounted by selecting an appropriate rate for each cash-generating unit. Further details of the assumptions and estimates are disclosed in note 12.

The Company also tests annually the carrying value of its investments in subsidiaries. The application of this policy requires the use of estimates and judgements in determining the recoverable amount of the subsidiary undertakings. The recoverable amount is determined by applying an appropriate multiple to the earnings of the subsidiaries along with consideration of the underlying net assets.

##### (b) Income taxes

The Group is subject to income taxes in numerous jurisdictions, including jurisdictions of now discontinued operations. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due and when they are likely to be settled. Where the final outcome of these matters is different from the amount recognised, such differences will impact the financial statements in the period such determination is made. Further details of income tax are disclosed in note 17.

##### (c) Provisions

Provisions are recognised in accordance with the policy disclosed in note 1.10. Management's judgement is that the cost provided represents the lower of the cost of fulfilling the contract or the cost of exiting the contract. In calculating property lease provisions, estimates are made of the discounted cash flows associated with the property and its associated operations including sub-let income together with estimates of any dilapidation obligations. Estimates have also been made (1) in determining the amount and timing of disposal provisions, including legacy industrial disease and personal injury claims, (2) in determining the amount and likelihood of settlement of indirect tax provisions and (3) in determining remaining costs from the Group restructuring and relocation project. Further details of provisions made are disclosed in note 21.

##### (d) Contingent assets and liabilities

Management is required to apply judgement in assessing the probability of the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. This judgement is supported by external advice and precedent case law where appropriate and is continually assessed to ensure that developments are appropriately reflected in the financial statements. Further details of contingent liabilities are disclosed in note 30. There were no contingent assets identified in the current year.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 1 General information and accounting policies continued

### *(e) Recoverability of convertible loan*

The Group has loaned £3.5m to its digital platform provider. The principal loan has the option to convert the loan into 17.5% of the issued share capital of its digital platform provider at any time prior to June 2018. If there is no conversion option exercised, the loan note is repayable in full in January 2019. Management is required to apply judgement to assess recoverability of this loan. In determining recoverability management is required to estimate the fair value of the conversion rights and the likelihood of the digital platform provider having access to the required funds to settle the principal if it becomes due. Both estimates are dependent on limited publicly available information and judgement regarding the future success of a relatively new start-up business. Further details can be found in note 15.

### **1.1.4 Changes in accounting policy and disclosures**

#### *(a) Standards, amendments to and interpretations of existing standards adopted by the Group*

The Group has not been materially impacted by the adoption of any standards. The Group has not early adopted any standard, amendment or interpretation that was issued but is not yet effective.

#### *(b) Standards, amendments to and interpretations of existing standards that are not yet effective*

IFRS 16 'Leases' represents a significant change, notably for lessees, in how leases are accounted for and reported. The standard will be effective for the Group for the period beginning 1 July 2019, subject to EU endorsement, and will replace IAS 17 'Leases'. IFRS 16 will require all lessees to recognise a right of use asset and lease liability for all leases, except for leases with a lease term of 12 months or less or where the underlying asset is of low value.

The Group expects the standard to apply to the majority of its operating lease commitments and to have a material impact on the Group's reported results and balance sheet. The recognition of right of use assets and lease liabilities will result in an increase in total assets and total liabilities reported. Within the income statement, the current rent expense will be replaced with a depreciation and interest expense. The standard will also impact a number of statutory reporting measures such as operating profit and cash generated from operations, as well as alternative performance measures used by the Group.

The full impact of IFRS 16 on the Group is currently being assessed, including the practical application of the principles of the standard to the Group's leases, and it is therefore not yet possible to provide a reasonable estimate of its effect. The Group's current operating lease commitments on an undiscounted basis under IAS 17 are disclosed in note 29.

IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' will be effective for our next financial reporting period. The Group does not anticipate a material impact on the results or net assets from these standards or any other standards that are in issue but not yet effective.

### **1.2 Consolidation**

The consolidated financial statements comprise the financial statements of the parent and its subsidiaries as at 30 June 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically the Group controls an investee if, and only if, the Group has a) power over the investee, b) exposure, or rights, to variable returns from the investee, and c) ability to use its power to affect those returns. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies as applied to subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group has no material associates or joint ventures.

### **1.3 Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition costs incurred are expensed and included in administrative expenses within exceptional items.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition date fair value of the consideration transferred, over the fair value of the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Identifiable intangible assets are recognised separately from goodwill.

If the aggregate of the acquisition date fair value of the consideration transferred is lower than the fair value of the assets, liabilities and contingent liabilities in the business acquired, the difference is recognised in profit and loss.

### **1.4 Revenue recognition**

Revenue consists of the fair value of sales of goods and services net of VAT, rebates and discounts.

#### *(a) Gaming win*

Revenue for casinos includes the gaming win before deduction of gaming-related duties. Revenue for bingo is net of prizes before deduction of gaming-related duties. Revenue for digital products, including interactive games, represents gaming win before deduction of gaming-related duties. The fair value of free bets, promotions and customer bonuses ('customer incentives') are also deducted from all revenue streams.

Although disclosed as revenue, gaming win (other than from poker and bingo) is accounted for and meets the definition of a gain under IAS 39 'Financial Instruments: Recognition and Measurement'.

*(b) Food and beverage*

Revenue from food and beverage sales is recognised at the point of sale.

**1.5 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the management team (the composition of which is disclosed on page 50), which makes strategic and operational decisions.

In the current year, the reporting of operating segments has been modified following changes in management responsibilities and reporting to the chief operating decision-maker. As from 1 December 2016, Grosvenor Casinos Digital and Mecca Digital were combined into a single operating segment which is now known as UK Digital. Enracha Venues and Enracha Digital were also combined into a single operating segment which is now known as Enracha.

The Group now reports five segments: Grosvenor Venues, Mecca Venues, UK Digital, Enracha and Central Costs. The prior year comparative information has been restated.

**1.6 Foreign currency translation**

The consolidated financial statements are presented in UK sterling, which is also the Company's functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

*(a) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement in finance costs or income.

*(b) Group companies*

The results and financial position of all the Group companies (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate on the balance sheet date. The closing euro rate against UK sterling was 1.14 (30 June 2016: 1.21) and the closing US dollar rate against UK sterling was 1.30 (30 June 2016: 1.35);

- (ii) income and expenses for each income statement are translated at average exchange rates unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing on the dates of the transactions. The average euro rate against UK sterling was 1.16 (year ended 30 June 2016: 1.33) and the average US dollar rate against UK sterling in the year was 1.27 (year ended 30 June 2016: 1.47); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

When a foreign operation is sold, such exchange differences are recognised in the income statement, as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

**1.7 Financial assets**

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

A financial asset is derecognised when the rights to receive the cash flows from the asset have expired, been transferred or an obligation to pay the cash flows received to a third party without material delay has been assumed, and either:

- ◇ substantially all the risks and rewards of ownership have been transferred; or
- ◇ substantially all the risks and rewards have neither been retained nor transferred, but control has been transferred.

The Group's financial assets include loans and receivables and cash and cash equivalents.

*(a) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, when the asset is expected to be realised in the normal operating cycle, otherwise they are classified as non-current assets. Loans and receivables are classified as other receivables in the balance sheet.

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

*(b) Cash and cash equivalents*

Cash and short-term deposits in the balance sheet include cash at banks and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the balance sheet.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 1 General information and accounting policies continued

### 1.8 Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

The Group's financial liabilities include trade and other payables, loans and borrowings (including bank overdrafts), and financial guarantee contracts.

#### (a) Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### (b) Loans and borrowings

After initial recognition at fair value net of any directly attributable transaction costs, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The effective interest rate method amortisation is included in finance costs in the income statement.

#### (c) Financial guarantee contracts (Company only)

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially measured at fair value by applying the estimated probability of default to the cash outflow should default occur and subsequently amortising over the expected length of the guarantee, to the extent that the guarantee is not expected to be called.

### 1.9 Leases

Leases are tested at inception to determine whether the lease is a finance or operating lease and treated accordingly. Property leases comprising a lease of land and a lease of buildings within a single contract are split into their two component parts before testing.

#### (a) Finance leases

Leases of property, plant and equipment which transfer substantially all the risks and rewards of ownership to the Group are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property, plant and equipment or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining

balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in loans and borrowings. Finance charges are recognised in the income statement. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

#### (b) Operating leases

Leases of property, plant and equipment which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Operating lease payments (including any lease incentives or premiums) are recognised as an expense in the income statement on a straight-line basis over the lease term.

### 1.10 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events if it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the best estimate of the expenditures required to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### 1.11 Property, plant and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and impairment. Such cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on assets using the straight-line method to allocate their cost less residual values over their estimated useful lives, as follows:

◇ freehold and leasehold property	50 years or lease term if less
◇ refurbishment of property	5 to 20 years or lease term if lower
◇ fixtures, fittings, plant and machinery	3 to 20 years

Land is not depreciated.

Residual values and useful lives are reviewed at each balance sheet date, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement.

Pre-opening costs are expensed to the income statement as incurred.

### **1.12 Intangible assets**

#### **(a) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and is allocated to the relevant cash-generating unit or group of cash-generating units for the purpose of impairment testing. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

#### **(b) Casino and other gaming licences and concessions**

The Group capitalises acquired casino and other gaming licences and concessions. Management believes that licences, except for the casino concessions in Belgium, have indefinite lives as there is no foreseeable limit to the period over which the licences are expected to generate net cash inflows, and each licence holds a value outside the property in which it resides. Each licence is reviewed annually for impairment.

In respect of the concessions in Belgium, the carrying value is amortised over the expected useful life of the concession. As at 30 June 2017 the licences have a remaining useful life of 3.5 years and 0.2 years respectively.

Any costs in renewing licences or concessions are expensed as incurred.

#### **(c) Software and development**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis over their estimated useful lives (three to five years).

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production and development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets for both externally purchased and internally developed software. Direct costs include specific employee costs for software development.

Computer software development costs recognised as assets are amortised over their estimated useful lives (three to five years).

#### **(d) Property contracts**

Property contracts arise on a fair value adjustment in respect of favourable property contracts on acquisitions. Such contracts are amortised over the lease term of the associated property.

### **1.13 Impairment of intangible assets and property, plant and equipment**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or where they indicate a previously recognised impairment may no longer be required.

An impairment loss is recognised as the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The expected cash flows generated by the assets are discounted using appropriate discount rates that reflect the time value of money and the risks associated with the groups of assets.

If an impairment loss is recognised, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense in the income statement immediately.

Any impairment is allocated equally across all assets in a cash-generating unit unless there is an indication that a class of assets should be impaired in the first instance or a fair market value exists for one or more assets. Once an asset has been written down to its fair value less costs of disposal then any remaining impairment is allocated equally amongst all other assets.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised in the income statement immediately.

### **1.14 Employee benefit costs**

#### **(a) Pension obligations**

The Group operates a defined contribution plan under which the Group pays fixed contributions to a separate entity. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

The Group also has an unfunded pension commitment relating to three former executives of the Group. The amount recognised in the balance sheet in respect of the commitment is the present value of the obligation at the balance sheet date, together with adjustment for actuarial gains or losses. The Group recognises actuarial gains and losses immediately in the statement of other comprehensive income. The interest cost arising on the commitment is recognised in net finance costs.

#### **(b) Share-based compensation**

The cost of equity-settled transactions with employees for awards is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using an appropriate pricing model.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 1 General information and accounting policies continued

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally, regardless of whether the entity or the employee cancels the award.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

The cost of cash-settled transactions is measured at fair value with the recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to and including the settlement date.

### (c) Share-based compensation – Company

The Company operates share-based payment schemes for employees of the Company and its subsidiaries. The fair value of shares awarded to employees of the Company are recognised as an employee expense with a corresponding increase in equity. The Company also makes awards of its own shares to employees of its subsidiaries and as such recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiaries' financial statements, with the corresponding credit being recognised directly in equity.

### (d) Bonus plans

The Group recognises a liability in respect of the best estimate of bonuses payable where contractually obliged to do so or where a past practice has created a constructive obligation.

### 1.15 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of inventory is determined on a 'first-in, first-out' basis.

The cost of finished goods comprises goods purchased for resale.

Net realisable value is the estimated selling price in the ordinary course of business. When necessary, a provision is made for obsolete and slow-moving inventories.

### 1.16 Taxation

#### (a) Current tax

Current tax assets and liabilities for the current and prior periods are measured as the amount expected to be paid or to be recovered from the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date.

Current tax relating to items recognised directly in equity is recognised in equity and not the income statement.

Management evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation at each reporting date and establishes provisions where appropriate.

#### (b) Deferred tax

Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if deferred tax arises from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

*(c) Sales tax*

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- ◇ where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- ◇ for receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

**1.17 Share capital**

Ordinary shares are classified as equity.

**1.18 Discontinued operations and held for sale assets**

Operations of the Group are recognised as discontinued operations if the operations have been disposed of or meet the criteria to be classified as held for sale and represent a separate major line of business or geographic area of operations. Operations held for sale are held at the lower of their carrying amount on the date they are classified as held for sale and their fair value less costs of disposal.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

**1.19 Dividends**

Dividends proposed by the board of directors and unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the annual general meeting. Interim dividends are recognised when paid.

**1.20 Exceptional items**

The Group separately discloses those items which are required to give a full understanding of the Group's financial performance and aid comparability of the Group's result between periods. Exceptional items are considered by the directors to require separate disclosure due to their size or nature in relation to the Group.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 2 Segmental reporting

## a) Segment information – operating segments

	Year ended 30 June 2017					
	Grosvenor Venues £m	Mecca Venues £m	UK Digital £m	Enracha £m	Central Costs £m	Total £m
<b>Continuing operations</b>						
Revenue before adjustment for customer incentives	397.2	213.6	111.5	32.8	–	755.1
Customer incentives	(14.9)	(10.0)	(23.0)	–	–	(47.9)
<b>Statutory revenue</b>	<b>382.3</b>	<b>203.6</b>	<b>88.5</b>	<b>32.8</b>	<b>–</b>	<b>707.2</b>
Operating profit (loss) before exceptional items	52.1	29.9	22.7	6.2	(27.4)	83.5
Exceptional (loss) profit	(5.2)	11.2	(2.0)	0.6	(3.6)	1.0
<b>Segment result</b>	<b>46.9</b>	<b>41.1</b>	<b>20.7</b>	<b>6.8</b>	<b>(31.0)</b>	<b>84.5</b>
Finance costs						(4.4)
Finance income						0.2
Other financial losses						(0.6)
<b>Profit before taxation</b>						<b>79.7</b>
Taxation						(16.8)
<b>Profit for the year from continuing operations</b>						<b>62.9</b>
<b>Other segment items – continuing operations</b>						
Capital expenditure	(17.1)	(9.3)	(2.3)	(1.2)	(12.8)	(42.7)
Depreciation and amortisation	(24.5)	(11.9)	(5.1)	(1.5)	(2.3)	(45.3)
Venue impairment charges	(5.2)	(0.3)	–	(1.2)	–	(6.7)
Venue impairment reversals	0.7	–	–	1.8	–	2.5
Group restructuring including relocation costs	(1.8)	(0.2)	(2.0)	–	(4.8)	(8.8)
Net credit from property leases	1.1	11.7	–	–	1.9	14.7
Aborted acquisition costs	–	–	–	–	(0.7)	(0.7)

	Year ended 30 June 2016					
	Grosvenor Venues £m	Mecca Venues £m	UK Digital £m	Enracha £m	Central Costs £m	Total £m
<b>Continuing operations</b>						
Revenue before adjustment for customer incentives	408.1	221.5	96.7	26.7	–	753.0
Customer incentives	(15.9)	(10.6)	(18.0)	–	–	(44.5)
<b>Statutory revenue</b>	<b>392.2</b>	<b>210.9</b>	<b>78.7</b>	<b>26.7</b>	<b>–</b>	<b>708.5</b>
Operating profit (loss) before exceptional items	60.9	32.9	13.9	3.6	(28.9)	82.4
Exceptional (loss) profit	(1.1)	9.2	–	1.1	0.1	9.3
<b>Segment result</b>	<b>59.8</b>	<b>42.1</b>	<b>13.9</b>	<b>4.7</b>	<b>(28.8)</b>	<b>91.7</b>
Finance costs						(5.3)
Finance income						0.2
Other financial losses						(1.1)
<b>Profit before taxation</b>						<b>85.5</b>
Taxation						(14.4)
<b>Profit for the year from continuing operations</b>						<b>71.1</b>
<b>Other segment items – continuing operations</b>						
Capital expenditure	(24.8)	(9.1)	(1.8)	(3.4)	(13.6)	(52.7)
Depreciation and amortisation	(25.0)	(12.6)	(4.9)	(1.5)	(1.8)	(45.8)
Venue impairment charges	(1.1)	(0.3)	–	–	–	(1.4)
Venue impairment reversals	–	–	–	1.4	–	1.4
Net credit from property leases	0.6	0.7	–	–	0.1	1.4
Closure of venues	(0.8)	(1.5)	–	(0.3)	–	(2.6)
Profit on disposal of freehold buildings	–	10.0	–	–	–	10.0

The Group reports segmental information on the basis by which the chief operating decision-maker utilises internal reporting within the business. In the current year the internal reporting of operating segments has been modified following changes in management responsibilities and reporting to the chief operating decision-maker. As from 1 December 2016 Grosvenor Casinos Digital and Mecca Digital were combined into a single operating segment which is now known as UK Digital. Enracha Venues and Enracha Digital were also combined into a single operating segment which is now known as Enracha. Further information about each segment is disclosed on pages 32-33 (Grosvenor Venues), 34 (Mecca Venues), 35 (UK Digital) and 36 (Enracha). Prior year comparatives have been updated to reflect the revised operating segments.

Assets and liabilities have not been segmented as this information is not provided to the chief operating decision-maker on a regular basis.

Capital expenditure comprises expenditure on property, plant and equipment and other intangible assets.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 2 Segmental reporting continued

## b) Geographical information

The Group operates in two main geographical areas (UK and Continental Europe).

## i) Revenue from external customers by geographical area based on location of customer

	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
UK	659.4	667.7
Continental Europe	47.8	40.8
<b>Total revenue</b>	<b>707.2</b>	<b>708.5</b>

## ii) Non-current assets by geographical area based on location of assets

	As at 30 June 2017 £m	As at 30 June 2016 £m
UK	565.3	573.2
Continental Europe	34.1	33.1
Segment non-current assets	599.4	606.3
Unallocated assets:		
Deferred tax assets	0.1	1.3
Financial assets	6.5	6.5
<b>Total non-current assets</b>	<b>606.0</b>	<b>614.1</b>

With the exception of the UK no individual country contributed more than 10% of consolidated sales or assets.

## c) Total revenue and profit from continuing and discontinued operations

	Note	Revenue		Profit	
		Year ended 30 June 2017 £m	Year ended 30 June 2016 £m	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
From continuing operations		707.2	708.5	62.9	71.1
From discontinued operations	4	–	–	–	3.6
		<b>707.2</b>	<b>708.5</b>	<b>62.9</b>	<b>74.7</b>

## d) Total cost analysis by segment

To increase transparency, the Group has decided to include additional disclosure analysing total costs by type and segment. A reconciliation of total costs, before exceptional items, by type and segment is as follows:

	Year ended 30 June 2017					
	Grosvenor Venues £m	Mecca Venues £m	UK Digital £m	Enracha £m	Central Costs £m	Total £m
Employment and related costs	140.2	53.7	9.2	13.8	21.1	238.0
Taxes and duties	82.7	33.5	10.5	1.8	1.8	130.3
Direct costs	14.4	20.4	26.9	3.3	–	65.0
Property costs	30.1	27.3	0.7	1.4	1.3	60.8
Marketing	13.7	8.4	9.1	1.0	0.2	32.4
Depreciation and amortisation	24.5	11.9	5.1	1.5	2.3	45.3
Other	24.6	18.5	4.3	3.8	0.7	51.9
<b>Total costs on continuing operations before exceptional items</b>	<b>330.2</b>	<b>173.7</b>	<b>65.8</b>	<b>26.6</b>	<b>27.4</b>	<b>623.7</b>
Cost of sales						391.4
Operating costs						232.3
<b>Total costs on continuing operations before exceptional items</b>						<b>623.7</b>

	Year ended 30 June 2016					
	Grosvenor Venues £m	Mecca Venues £m	UK Digital £m	Enracha £m	Central Costs £m	Total £m
Employment and related costs	139.6	53.7	9.8	11.6	18.9	233.6
Taxes and duties	86.0	35.7	11.6	1.5	1.6	136.4
Direct costs	14.5	21.0	22.6	2.6	–	60.7
Property costs	29.4	25.6	0.6	1.7	1.1	58.4
Marketing	15.6	9.9	12.8	1.0	–	39.3
Depreciation and amortisation	25.0	12.6	4.9	1.5	1.8	45.8
Other	21.2	19.5	2.5	3.2	5.5	51.9
<b>Total costs on continuing operations before exceptional items</b>	<b>331.3</b>	<b>178.0</b>	<b>64.8</b>	<b>23.1</b>	<b>28.9</b>	<b>626.1</b>
Cost of sales						391.7
Operating costs						234.4
<b>Total costs on continuing operations before exceptional items</b>						<b>626.1</b>

### 3 Profit for the year – analysis by nature

The following items have been charged (credited) in arriving at the profit for the year before financing and taxation from continuing operations:

	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
Employee benefit expense	221.1	217.1
Cost of inventories recognised as expense	36.9	40.4
Amortisation of intangibles (including £2.3m (year ended 30 June 2016: £2.2m) within cost of sales)	9.5	8.9
Depreciation of property, plant and equipment		
♦ owned assets (including £33.8m (year ended 30 June 2016: £32.8m) within cost of sales)	34.9	33.9
♦ under finance leases (included within cost of sales)	0.9	3.0
Operating lease rentals payable		
♦ minimum lease payments	45.6	47.0
♦ sub-lease income	(4.7)	(4.5)
Loss on disposal of property, plant and equipment	0.9	0.5
Impairment of property, plant and equipment	0.5	0.5
Exceptional items (see note 4)	(1.0)	(9.3)
Auditors' remuneration for audit services	0.4	0.4

In the year, the Group's auditors, Ernst & Young LLP, including its network firms, earned the following fees:

	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
Audit services		
♦ Fees payable to the Company's auditor for the parent company and consolidated financial statements	0.3	0.2
Other services		
Fees payable to the Company's auditor and its associates for other services:		
♦ the audit of the Company's subsidiaries pursuant to legislation	0.1	0.2
♦ tax services	–	0.1
♦ other services	0.2	–
	<b>0.6</b>	<b>0.5</b>

£25,000 (year ended 30 June 2016: £25,000) of the audit fees related to the parent company.

Other services include aborted acquisition and cyber security advice.

It is the Group's policy to balance the need to maintain auditor independence with the benefit of taking advice from the leading firm in the area concerned and the desirability of being efficient.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 4 Exceptional items

	Note	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
<b>Exceptional items relating to continuing operations</b>			
Venue impairment charges	10,11,12	(6.7)	(0.9)
Venue impairment reversals	10,11,12	2.5	1.4
Group restructuring including relocation costs		(8.8)	–
Net credit from property leases		14.7	1.4
Aborted acquisition costs		(0.7)	–
Closure of venues		–	(2.6)
<b>Exceptional operating costs<sup>1</sup></b>		<b>1.0</b>	<b>(0.7)</b>
Disposal of freehold buildings		–	10.0
<b>Exceptional operating income</b>		<b>–</b>	<b>10.0</b>
Taxation	6	(1.2)	0.4
<b>Exceptional items relating to continuing operations</b>		<b>(0.2)</b>	<b>9.7</b>
<b>Exceptional items relating to discontinued operations</b>			
Disposal of subsidiary		–	(0.3)
Finance costs	5	–	(0.3)
Taxation	6	–	4.2
<b>Exceptional items relating to discontinued operations</b>		<b>–</b>	<b>3.6</b>
<b>Total exceptional items</b>		<b>(0.2)</b>	<b>13.3</b>

1 It is Group policy to reverse exceptional costs in the same line as they were originally recognised.

## Year ended 30 June 2017 exceptional items

## Continuing operations

## Venue impairment charges

The Group recognised impairment charges of £6.7m, of which £5.2m related to two venues within Grosvenor Casinos, £0.3m related to a venue within Mecca and £1.2m related to a venue within Enracha. Performance at these venues has not been in line with expectations and is not expected to significantly improve in the future.

## Venue impairment reversals

The Group reversed previous impairment charges of £2.5m, £0.7m of which related to a venue within Grosvenor and £1.8m related to two venues within Enracha. This reflects a significant improvement in performance following the closure of a competitor and a sustained increase in performance attributed to improvements in the local economic environment within Spain.

## Group restructuring including relocation costs

In the first six months of 2016/17 the Group carried out a detailed review of its entire UK organisational structure designed to improve customer service and simplify operations. This has resulted in changes to management and team structures at both venue and central levels, the decision to centralise support functions in a new office in Maidenhead and the merging of the separately run brand teams supporting digital into one operational team. The cost of this restructure is estimated to be £9.3m, with £8.8m recognised in the current financial year and the balance expected to be incurred in the first six months of 2017/18.

The costs incurred include £5.2m of redundancy costs, £2.2m of onerous lease costs, £0.6m of tangible asset impairment, £0.5m of loss on disposal of tangible assets and £0.3m of legal and professional fees.

Costs by segment were £1.8m Grosvenor Venues, £0.2m Mecca Venues, £2.0m UK Digital and £4.8m Central Costs.

### ***Net credit from property leases***

The total net credit was £14.7m:

- ◇ £11.7m was recognised in Mecca. This includes £10.7m following the successful surrender of an onerous lease at a Mecca venue in exchange for a cash payment of £2.0m, £1.4m due to the renegotiation of lease terms at a venue, offset by a £0.4m charge from increasing the required provision at three venues;
- ◇ £1.1m was recognised in Grosvenor. This included a £1.0m credit due to advance negotiation to sub-let an onerous lease, £0.3m due to a final settlement agreed on a previously leased venue, offset by a £0.2m charge for a venue that required a full onerous lease; and
- ◇ £1.9m was recognised in Central Costs for multi-let venues. This included a credit of £1.5m due to the renegotiation of an onerous lease, £0.8m due to additional sub-let income from a tenant at one of the sites, offset by a £0.4m charge due to a reduction in variable rent expectation.

### ***Aborted acquisition costs***

Central Costs includes £0.7m of aborted acquisition cost.

## **Year ended 30 June 2016 exceptional items**

### **Continuing operations**

#### ***Venue impairment charges***

The Group recognised an impairment charge of £0.9m for a venue within Grosvenor Casinos. Performance at the venue has not been in line with expectations.

#### ***Venue impairment reversal***

The Group reversed a previous impairment charge of £1.4m in Enracha. This reflects improved performance at a venue attributed to improvements in the commercial environment.

### ***Net credit from property leases***

The Group recognised a net release of £1.4m in relation to provisions for onerous property leases in the year. This includes a £0.7m and £1.0m gain, from successful onerous lease surrenders in Mecca and Grosvenor Casinos respectively, net of a charge from a reduction in the discount rate applied to existing provisions.

Further movements in the property leases provision are explained under 'Closure of venues' below.

### ***Closure of venues***

During the year the Group closed, or committed to close, seven venues of which four were within Mecca and three within Grosvenor Casinos. The charge in the period of £2.6m reflects additional costs of closure due to redundancy, dilapidation and onerous property lease costs at three clubs within Grosvenor Casinos (£0.8m), one club within Mecca (£1.5m) and one previously closed club within Enracha (£0.3m).

### ***Disposal of freehold buildings***

During the year Mecca sold two freehold buildings for a net profit, after associated disposal costs, of £10.0m.

## **Discontinued operations**

### ***Disposal of subsidiary***

The Group disposed of Rank Insurance Limited for a net cost of £0.3m. The business provided insurance services to previously discontinued activities and represents an end of life legacy insurance company. Approximate annual operating costs from the business were £0.1m.

### ***Taxation and finance costs***

Income of £3.9m has been recognised in respect of discontinued operations in overseas jurisdictions. This comprises £4.4m of exceptional tax credit due to settlement of amounts previously paid across to an overseas tax authority, £0.3m of finance cost for an associated letter of credit and an additional £0.2m charge for a separate tax exposure in another jurisdiction.

The exceptional tax credit of £4.4m less £0.3m of associated finance cost in relation to the letter of credit has been disclosed separately on the cash flow as cash from discontinued operations.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 5 Financing

	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
<b>Continuing operations:</b>		
Finance costs:		
Interest on debt and borrowings <sup>1</sup>	(2.6)	(3.2)
Amortisation of issue costs on borrowings <sup>1</sup>	(0.4)	(0.4)
Interest payable on finance leases	(0.6)	(0.7)
Unwinding of discount in property lease provisions	(0.8)	(0.9)
Unwinding of discount in disposal provisions	–	(0.1)
<b>Total finance costs</b>	<b>(4.4)</b>	<b>(5.3)</b>
Finance income:		
Interest income on short-term bank deposits <sup>1</sup>	0.1	0.1
Interest income on loans <sup>1</sup>	0.1	0.1
<b>Total finance income</b>	<b>0.2</b>	<b>0.2</b>
<b>Other financial losses</b>	<b>(0.6)</b>	<b>(1.1)</b>
<b>Total net financing charge for continuing operations</b>	<b>(4.8)</b>	<b>(6.2)</b>
Discontinued operations:		
Exceptional finance costs	–	(0.3)
<b>Total net financing charge for discontinued operations</b>	<b>–</b>	<b>(0.3)</b>
<b>Total net financing charge</b>	<b>(4.8)</b>	<b>(6.5)</b>

1 Calculated using the effective interest method.

Exceptional finance costs recognised in discontinued operations in the year ended 30 June 2016 of £0.3m relate to the cost of a letter of credit held in respect of taxation balances on disposed entities. There were no such costs in the current year.

Other financial losses include foreign exchange losses on loans and borrowings.

A reconciliation of total net financing charge for continuing operations before exceptional items to adjusted net interest included in adjusted profit is disclosed below:

	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
Total net financing charge for continuing operations before exceptional items	(4.8)	(6.2)
Adjust for:		
Unwinding of discount in disposal provisions	–	0.1
Other financial losses	0.6	1.1
<b>Adjusted net interest payable</b>	<b>(4.2)</b>	<b>(5.0)</b>

## 6 Taxation

	Year ended 30 June 2017			Year ended 30 June 2016		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
<b>Current income tax</b>						
Current income tax – UK	(11.8)	–	(11.8)	(13.6)	–	(13.6)
Current income tax – overseas	(3.4)	–	(3.4)	(2.2)	–	(2.2)
Current income tax on exceptional items	(1.8)	–	(1.8)	0.1	–	0.1
Amounts over (under) provided in previous period	0.5	–	0.5	(0.2)	–	(0.2)
Amounts over provided in previous period on exceptional items	–	–	–	0.3	4.2	4.5
<b>Total current income tax (charge) credit</b>	<b>(16.5)</b>	<b>–</b>	<b>(16.5)</b>	<b>(15.6)</b>	<b>4.2</b>	<b>(11.4)</b>
<b>Deferred tax</b>						
Deferred tax – UK	(1.3)	–	(1.3)	(1.1)	–	(1.1)
Deferred tax – overseas	(0.3)	–	(0.3)	(0.6)	–	(0.6)
Restatement of deferred tax due to rate change	1.1	–	1.1	2.3	–	2.3
Deferred tax on exceptional items	0.6	–	0.6	–	–	–
Amounts (under) over provided in previous period	(0.4)	–	(0.4)	0.6	–	0.6
<b>Total deferred tax (charge) credit (note 20)</b>	<b>(0.3)</b>	<b>–</b>	<b>(0.3)</b>	<b>1.2</b>	<b>–</b>	<b>1.2</b>
<b>Tax (charge) credit in the income statement</b>	<b>(16.8)</b>	<b>–</b>	<b>(16.8)</b>	<b>(14.4)</b>	<b>4.2</b>	<b>(10.2)</b>

The tax on the Group's profit before taxation on continuing operations differs from the standard rate of UK corporation tax in the period of 19.75% (year ended 30 June 2016: 20.00%). The differences are explained below:

	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
Profit before taxation on continuing operations	79.7	85.5
Tax charge calculated at 19.75% on profit before taxation on continuing operations (year ended 30 June 2016: 20.00%)	(15.7)	(17.1)
Effects of:		
Expenses not deductible for tax purposes	(2.2)	(0.1)
Difference in overseas tax rates	(0.1)	(0.5)
Restatement of deferred tax due to rate change	1.1	2.3
Adjustments relating to prior periods	0.1	0.7
Deferred tax recognised	–	0.3
<b>Tax charge in the income statement on continuing operations</b>	<b>(16.8)</b>	<b>(14.4)</b>

### Tax on exceptional items – continuing operations

The taxation impacts of continuing exceptional items are disclosed below:

	Year ended 30 June 2017			Year ended 30 June 2016		
	Current income tax £m	Deferred tax £m	Total £m	Current income tax £m	Deferred tax £m	Total £m
Venue impairment charges	–	1.0	1.0	–	0.2	0.2
Venue impairment reversals	–	(0.5)	(0.5)	–	(0.4)	(0.4)
Group restructuring including relocation costs	1.5	0.1	1.6	–	–	–
Net credit from property leases	(3.3)	–	(3.3)	(0.4)	–	(0.4)
Aborted acquisition costs	–	–	–	–	–	–
Closure of venues	–	–	–	0.5	0.2	0.7
Amounts over provided in respect of previous period	–	–	–	0.3	–	0.3
<b>Tax (charge) credit on exceptional items – continuing operations</b>	<b>(1.8)</b>	<b>0.6</b>	<b>(1.2)</b>	<b>0.4</b>	<b>–</b>	<b>0.4</b>



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 6 Taxation continued

## Tax on exceptional items – discontinued operations

The taxation impacts of discontinued exceptional items are disclosed below:

	Year ended 30 June 2017			Year ended 30 June 2016		
	Current income tax £m	Deferred tax £m	Total £m	Current income tax £m	Deferred tax £m	Total £m
Net credit on exceptional items relating to overseas tax audits	–	–	–	4.2	–	4.2

The £4.2m exceptional tax credit in discontinued operations in the prior year relating to overseas tax audits consists of a refund of tax paid of £4.4m following the successful resolution of a transfer pricing dispute, offset by a £0.2m charge in relation to a separate audit.

## Tax effect of items within other comprehensive income

	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
Current income tax credit on exchange movements offset in reserves	0.2	0.6
Deferred tax credit on actuarial movement on retirement benefits	0.1	–
<b>Total tax credit on items within other comprehensive income</b>	<b>0.3</b>	<b>0.6</b>

The debit in respect of employee share schemes included within the Statement of changes in equity includes a deferred tax credit of £0.1m (year ended 30 June 2016: £0.1m).

## Factors affecting future taxation

UK corporation tax is calculated at 19.75% (year ended 30 June 2016: 20.00%) of the estimated assessable profit for the period. Taxation for overseas operations is calculated at the local prevailing rates.

On 8 July 2015, the Chancellor of the Exchequer announced the reduction in the main rate of UK corporation tax to 19.0% for the year starting 1 April 2017 and a further 1.0% reduction to 18.0% from 1 April 2020. These changes were substantively enacted in October 2015.

On 16 March 2016, the Chancellor of the Exchequer announced a further 1.0% reduction to the previously announced 18.0% main rate of UK corporation tax to 17.0% from 1 April 2020. This change was substantively enacted in September 2016. The rate reductions will reduce the amount of cash tax payments to be made by the Group.

## 7 Results attributable to the parent company

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 not to present the parent company income statement. The loss for the year ended 30 June 2017 for the Company was £17.1m (year ended 30 June 2016: loss of £23.9m). The loss includes an impairment charge of £nil (year ended 30 June 2016 impairment charge of £5.1m) in respect of its investment in subsidiary undertakings. Further details are provided in note 13.

## 8 Dividends paid to equity holders

	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
Final dividend for 2014/15 paid on 21 October 2015 – 4.00p per share	–	15.6
Interim dividend for 2015/16 paid on 22 March 2016 – 1.80p per share	–	7.1
Final dividend for 2015/16 paid on 20 October 2016 – 4.70p per share	18.4	–
Interim dividend for 2016/17 paid on 21 March 2017 – 2.00p per share	7.8	–
<b>Dividends paid to equity holders</b>	<b>26.2</b>	<b>22.7</b>
Refund of unclaimed dividends	(0.2)	–

A final dividend in respect of the year ended 30 June 2017 of 5.3p per share, amounting to a total dividend of £20.7m, is to be recommended at the annual general meeting on 19 October 2017. These financial statements do not reflect this dividend payable.

## 9 Earnings per share

### (a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year.

	Year ended 30 June 2017			Year ended 30 June 2016		
	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
<b>Profit (loss) attributable to equity shareholders</b>						
Continuing operations	£63.1m	£(0.2)m	£62.9m	£61.4m	£9.7m	£71.1m
Discontinued operations	–	–	–	–	£3.6m	£3.6m
<b>Total</b>	<b>£63.1m</b>	<b>£(0.2)m</b>	<b>£62.9m</b>	<b>£61.4m</b>	<b>£13.3m</b>	<b>£74.7m</b>
<b>Weighted average number of ordinary shares in issue</b>	<b>390.7m</b>	<b>390.7m</b>	<b>390.7m</b>	<b>390.7m</b>	<b>390.7m</b>	<b>390.7m</b>
<b>Basic earnings (loss) per share</b>						
Continuing operations	16.2p	(0.1)p	16.1p	15.7p	2.5p	18.2p
Discontinued operations	–	–	–	–	0.9p	0.9p
<b>Total</b>	<b>16.2p</b>	<b>(0.1)p</b>	<b>16.1p</b>	<b>15.7p</b>	<b>3.4p</b>	<b>19.1p</b>

### (b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares.

	Year ended 30 June 2017			Year ended 30 June 2016		
	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
Weighted average number of ordinary shares in issue	390.7m	390.7m	390.7m	390.7m	390.7m	390.7m
Effect of dilutive potential ordinary shares – share awards	1.6m	1.6m	1.6m	–	–	–
<b>Number of shares used for fully diluted earnings per share</b>	<b>392.3m</b>	<b>392.3m</b>	<b>392.3m</b>	<b>390.7m</b>	<b>390.7m</b>	<b>390.7m</b>
<b>Basic earnings (loss) per share</b>						
Continuing operations	16.1p	(0.1)p	16.0p	15.7p	2.5p	18.2p
Discontinued operations	–	–	–	–	0.9p	0.9p
<b>Total</b>	<b>16.1p</b>	<b>(0.1)p</b>	<b>16.0p</b>	<b>15.7p</b>	<b>3.4p</b>	<b>19.1p</b>

### (c) Adjusted earnings per share

Adjusted earnings is calculated by adjusting profit attributable to equity shareholders to exclude discontinued operations, exceptional items, other financial gains or losses, unwinding of the discount in disposal provisions and the related tax effects. Adjusted earnings is one of the business performance measures used internally by management to manage the operations of the business. Management believes that the adjusted earnings measure assists in providing a view of the underlying performance of the business.

Adjusted net earnings attributable to equity shareholders is derived as follows:

	Year ended 30 June 2017 £m	Year ended 30 June 2017 £m
Profit attributable to equity shareholders	62.9	74.7
Adjust for:		
Discontinued operations (net of taxation)	–	(3.6)
Exceptional items after tax on continuing operations	0.2	(9.7)
Other financial losses	0.6	1.1
Unwinding of discount in disposal provisions	–	0.1
Taxation on adjusted items and impact of reduction in tax rate	(1.2)	(2.6)
<b>Adjusted net earnings attributable to equity shareholders (£m)</b>	<b>62.5</b>	<b>60.0</b>
<b>Adjusted earnings per share (p) – basic</b>	<b>16.0p</b>	<b>15.4p</b>
<b>Adjusted earnings per share (p) – diluted</b>	<b>15.9p</b>	<b>15.4p</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 10 Intangible assets

Group	Goodwill £m	Casino and other gaming licences and concessions £m	Software and development £m	Property contracts £m	Total £m
<b>Cost</b>					
<b>At 1 July 2015</b>	134.3	269.1	45.3	3.7	452.4
Exchange adjustments	–	5.7	–	0.1	5.8
Disposals	–	–	(0.5)	–	(0.5)
Additions	–	0.1	14.3	–	14.4
<b>At 30 June 2016</b>	134.3	274.9	59.1	3.8	472.1
Exchange adjustments	–	2.6	–	–	2.6
Disposals	–	–	(24.3)	–	(24.3)
Additions	–	–	14.3	–	14.3
<b>At 30 June 2017</b>	134.3	277.5	49.1	3.8	464.7
<b>Aggregate amortisation and impairment</b>					
<b>At 1 July 2015</b>	–	28.0	28.0	0.7	56.7
Exchange adjustments	–	4.1	–	–	4.1
Charge for the year	–	1.0	7.6	0.3	8.9
Impairment reversals	–	(1.4)	–	–	(1.4)
Disposals	–	–	(0.5)	–	(0.5)
<b>At 30 June 2016</b>	–	31.7	35.1	1.0	67.8
Exchange adjustments	–	1.9	–	–	1.9
Charge for the year	–	1.2	8.1	0.2	9.5
Impairment charges	–	–	0.1	–	0.1
Impairment reversals	–	(1.8)	–	–	(1.8)
Disposals	–	–	(24.3)	–	(24.3)
<b>At 30 June 2017</b>	–	33.0	19.0	1.2	53.2
Net book value at 30 June 2015	134.3	241.1	17.3	3.0	395.7
Net book value at 30 June 2016	134.3	243.2	24.0	2.8	404.3
<b>Net book value at 30 June 2017</b>	134.3	244.5	30.1	2.6	411.5

Impairment reversal for the year of £1.8m and the impairment charge of £0.1m have been recognised as exceptional items.

Software includes internally-generated computer software and development technology with a net book value of £18.2m (30 June 2016: £10.9m).

Property contracts are fair value adjustments that arose on acquisition.

Included in intangible assets are assets in the course of construction of £12.2m (30 June 2016: £4.1m). This includes £5.5m from the development of a single account and wallet solution, £1.0m for a replacement human resources system and £1.4m for a replacement finance system.

Indefinite life intangible assets have been reviewed for impairment as set out in note 12.

## 11 Property, plant and equipment

Group	Land and buildings £m	Fixtures, fittings, plant and machinery £m	Total £m
<b>Cost</b>			
<b>At 1 July 2015</b>	135.5	495.4	630.9
Exchange adjustments	1.8	8.2	10.0
Additions	0.9	35.0	35.9
Disposals	(10.4)	(10.0)	(20.4)
Write off of assets	–	(0.4)	(0.4)
<b>At 30 June 2016</b>	127.8	528.2	656.0
Exchange adjustments	0.8	3.9	4.7
Additions	1.1	28.0	29.1
Disposals	(13.0)	(126.5)	(139.5)
<b>At 30 June 2017</b>	116.7	433.6	550.3
<b>Accumulated depreciation and impairment</b>			
<b>At 1 July 2015</b>	76.8	350.7	427.5
Exchange adjustments	0.4	6.4	6.8
Charge for the year	4.1	32.8	36.9
Impairment charges	–	1.4	1.4
Disposals	(9.0)	(9.2)	(18.2)
Write off of assets	–	(0.4)	(0.4)
<b>At 30 June 2016</b>	72.3	381.7	454.0
Exchange adjustments	–	3.2	3.2
Charge for the year	4.2	31.6	35.8
Impairment charges	0.6	7.1	7.7
Impairment reversals	–	(0.7)	(0.7)
Disposals	(12.3)	(125.3)	(137.6)
<b>At 30 June 2017</b>	64.8	297.6	362.4
Net book value at 30 June 2015	58.7	144.7	203.4
Net book value at 30 June 2016	55.5	146.5	202.0
<b>Net book value at 30 June 2017</b>	51.9	136.0	187.9

A detailed review of fully depreciated assets was performed in the year which resulted in significant disposals at nil net book value in the year.

Impairment charges for the year of £7.7m comprise of £7.2m which has been recognised in respect of exceptional items relating to continuing operations and £0.5m in respect of operating profit before exceptional items. Exceptional items include venue impairment charges of £6.6m and restructuring and relocation impairment charges of £0.6m.

Impairment charges in the prior year of £1.4m comprised of exceptional items relating to continuing operations of £0.9m and £0.5m in respect of operating profit before exceptional items.

### Finance leases

The net book value of property, plant and equipment held under finance leases was:

	As at 30 June 2017 £m	As at 30 June 2016 £m
Land and buildings	4.2	5.3
Fixtures, fittings, plant and machinery	1.9	0.1
<b>Net book value at end of period</b>	<b>6.1</b>	<b>5.4</b>

There were £2.1m of additions to assets held under finance leases in the year (year ended 30 June 2016: £nil). There were £0.5m of disposals to assets held under finance leases in the year (year ended 30 June 2016: £nil).

### Assets under construction

Included in property, plant and equipment are assets in the course of construction of £7.6m (30 June 2016: £3.2m). £4.8m of these assets are for a replacement casino loyalty system.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 12 Impairment review

## a) Impairment review of goodwill and intangible assets with indefinite lives

At 30 June 2017, the Group had goodwill and intangible assets with indefinite lives and which have been assessed for impairment with carrying values of the following:

	As at 30 June 2017	As at 30 June 2016
Digital goodwill	£54.3m	£54.3m
Casino goodwill	£80.9m	£80.9m
<b>Total goodwill</b>	<b>£134.3m</b>	<b>£134.3m</b>
Casino licences	£231.9m	£231.9m
Spanish bingo licences	£9.7m	£7.4m
<b>Total casino and other gaming licences<sup>1</sup></b>	<b>£241.6m</b>	<b>£239.3m</b>

1 In note 10 £2.9m (30 June 2016: £3.9m) of casino and other gaming licences relate to definite life assets.

## i) Goodwill

*Digital goodwill*

£53.4m of goodwill arose on the acquisition of Rank Digital Limited. During the year there was a change to segmental reporting to reflect the combination of the UK Digital operations. As a consequence of this, the UK Digital goodwill is now monitored and allocated to this segment as a whole.

The recoverable amount has been determined based on a value in use calculation using cash flow projections based on the Group's budget for 2017/18, the Group's strategic plan for the following two years and a growth rate of 2.0% (30 June 2016: 2.0%) thereafter. Both the Group's budget and strategic plan have been approved by the board of directors.

The discount rate applied was 11% (30 June 2016: 12%). This is derived from the weighted average cost of capital and reflects the risks specific to this CGU.

The key assumptions in the calculation of value in use are settled stakes, gaming win margins, gaming duty and the discount rate. Settled stakes represent monies placed by customers for interactive games and are estimated taking into account the product mix and industry developments. Gaming win margins are based on values achieved in the past and amended for any anticipated changes in the budget period. Gaming duty is based upon statutory rates enacted at the balance sheet date.

As a result of the impairment testing, the directors do not believe that the carrying value of the goodwill was impaired as the value in use exceeded the carrying value of goodwill. The key factors which impact the calculation of the carrying value include:

Key factors	Key assumption impacted
Increased or improved competition	Settled stakes, Gaming win margin
Poor or decreased marketing activity	Settled stakes
Failure to respond to technological advances	Settled stakes
Deterioration in economic conditions	Settled stakes
Changes in regulation	Settled stakes, Gaming win margin
Changes in duties	Gaming duty

Based on these key assumptions and resulting projections, the recoverable amount significantly exceeds its carrying amount, by in excess of £200m, therefore no reasonably possible change in key assumptions would impact the carrying amount of Digital goodwill.

*Casino goodwill*

£80.9m of goodwill arose on the acquisition of 19 casinos from Gala Coral in May 2013. The goodwill arising on the acquisition is considered to benefit all acquired casinos and therefore is tested by combining the results of all of the acquired casino CGU's.

The recoverable amount has been determined based on a value in use calculation using cash flow projections of the combined casinos from the Group's budget for 2017/18, the Group's strategic plan for the following two years and a growth rate of 2.0% (30 June 2016: 2.0%) thereafter. Both the Group's budget and strategic plan have been approved by the board of directors.

The discount rate applied was 11% (30 June 2016: 10%). This is derived from the weighted average cost of capital and reflects the risks specific to this group of CGU's.

The key assumptions in the calculation of value in use are customer visits, spend per visit, casino duty, machine games duty and the discount rate. Customer visits are the number of discrete visits by customers to casinos and have been based on historic trends. Spend per visit comprises the average amount of money (net of winnings) spent per visit on gaming tables, machines and food and beverages. This has also been determined by historic trends. Casino duty is levied in bands of between 15% and 50% depending upon the level of gaming win at each casino. The bands and rates have been assumed to remain at current levels without indexation. Machine games duty is levied at rates of 5% or 20% depending upon certain criteria.



The table below outlines the possible changes in key assumptions that could cause the carrying value of goodwill to exceed its recoverable amount. These are:

Key factors	Key assumption impacted
Increased or improved competition	Customer visits
Poor or decreased marketing activity	Customer visits
Failure to respond to technological advances	Customer visits, Spend per visit
Deterioration in economic conditions	Customer visits, Spend per visit
Changes in regulation	Customer visits, Spend per visit
Changes in duties	Casino duty, Machine games duty

Based on these key assumptions and resulting projections, the recoverable amount of the casinos exceeds its carrying amount by £10.0m (30 June 2016: £113.0m). Headroom is less than the previous years which is attributed to a temporary decrease in performance at a couple of significant clubs. A decrease of approximately 4% in either customer visits or spend per visit would be required for the recoverable amount to equal the carrying value. A rise in gaming-related taxes from the current blended rate of 18% to 19% across the combined casinos would be required for the recoverable amount to equal the carrying value of the CGU. These calculations assume all other assumptions remain constant and therefore do not reflect any cost saving measures that may be identified should a key assumption be impacted to this magnitude.

## ii) Casino licences

The carrying value of indefinite life casino licences as at 30 June 2017 was £231.9m (30 June 2016: £231.9m).

The casino licences are assessed for impairment by reference to the associated clubs' (CGU's) performance or through consideration of fair value less estimated costs to dispose.

The inherent value of a casino licence is deemed to be an intrinsic part of the value of the operation of a casino as a whole and licences are therefore not split out from each casino in an impairment review. Each casino has been treated as a separate CGU, and tested for impairment on that basis. The recoverable amount of each casino, including the licence, has been determined based on the higher of fair value less costs of disposal and value in use. The value in use has been determined using cash flow projections, over the length of the associated lease or 50 years for freehold properties, based on the Group's budget for 2017/18, the Group's strategic plan for the following two years and a growth rate of 2.0% (30 June 2016: 2.0%) thereafter. Both the Group's budget and strategic plan have been approved by the board of directors. Estimates of the fair value less costs of disposal are performed internally by experienced senior management supported by knowledge of similar transactions or, where applicable, offers received.

The discount rate applied was 11% (30 June 2016: 10%). This is derived from the weighted average cost of capital and reflects the risks specific to this group of CGU's.

The key assumptions in the calculation of value in use are customer visits, spend per visit, casino duty, machine games duty and the discount rate. Customer visits are the number of discrete visits by customers to the casino and have been based on historic trends. Spend per visit comprises the average amount of money (net of winnings) spent per visit on gaming tables, machines and food and beverages. This has also been determined by historic trends. Casino duty is levied in bands of between 15% and 50% depending upon the level of gaming win at each casino. The bands and rates have been assumed to remain at current levels without indexation. Machine games duty is levied at rates of 5% or 20% depending upon certain criteria.

The table below outlines the possible changes in key assumptions that could cause the carrying value of individual licences to exceed their recoverable amount. These are:

Key factors	Key assumption impacted
Increased or improved competition	Customer visits
Poor or decreased marketing activity	Customer visits
Failure to respond to technological advances	Customer visits, Spend per visit
Deterioration in economic conditions	Customer visits, Spend per visit
Changes in regulation	Customer visits, Spend per visit
Changes in duties	Casino duty, Machine games duty

For UK casino licences, the directors do not believe that, with the exception of a prolonged non-operation of a UK casino licence, there are any reasonably foreseeable changes to the key assumptions that would result in a material impairment.

No impairment charges were made during the year against indefinite life casino licences (year ended 30 June 2016: £nil).

The casino concessions in Belgium are being amortised over their expected useful life. At 30 June 2017, the concessions had a carrying value of £2.9m (30 June 2016: £3.9m). The casino concessions have also been treated as a separate CGU for impairment testing purposes.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 12 Impairment review continued

**iii) Spanish bingo licences**

The carrying value of Spanish bingo licences as at 30 June 2017 was £9.7m (30 June 2016: £7.4m).

The inherent value of each Spanish bingo licence is deemed to be an intrinsic part of the value of a club as a whole and is not therefore split out from the assets of each individual bingo club in an impairment review. Each individual bingo club has been treated as a separate CGU, and tested for impairment on that basis. The recoverable amount of each Spanish bingo club, including the licence, has been determined based on the higher of fair value less costs of disposal and value in use. The value in use calculation has been determined using cash flow projections, over the length of the associated lease or 50 years in the case of freehold properties, based on the Group's budget for 2017/18, the Group's strategic plan for the following two years and a growth rate of 2.0% (30 June 2016: 2.0%), thereafter.

The discount rate applied was 12% (30 June 2016: 12%). This is derived from the weighted average cost of capital and reflects the risks specific to this group of CGU's.

The key assumptions in the calculation of value in use are customer visits, spend per visit, bingo duty and the discount rate. Customer visits are the number of discrete visits to the bingo club and have been based on recent trends. Spend per visit comprises the average amount of money (net of winnings) spent by a member on bingo games, machines and food and beverages. This has been determined by recent trends. Bingo duty is based upon statutory rates enacted at the balance sheet date.

However, there are possible changes in the key assumptions that could cause further impairments. These are:

Key factors	Key assumption impacted
Increased or improved competition	Customer visits
Poor or decreased marketing activity	Customer visits
Failure to respond to technological advances	Customer visits, Spend per visit
Deterioration in economic conditions	Customer visits, Spend per visit
Changes in regulation	Customer visits, Spend per visit
Changes in duties	Bingo duty

As outlined above, each Spanish bingo licence has been tested for impairment by reference to the associated trading at each club. Accordingly, the sensitivity of each licence to future impairments, arising from changes in the key assumptions, varies from club to club. During the period £1.8m (30 June 2017: £1.4m) of impairment reversal was recognised on two licences. This represented a full impairment reversal at these clubs due to a sustained improvement in performance attributed to improvements in the local economy. No further reversals are expected as a significant change in budgeted performance would be required.

**b) Impairment review of property, plant and equipment and definite life intangible assets**

Property, plant and equipment and intangible assets are grouped into CGUs which are defined as individual venues for Mecca, Enracha and Grosvenor Casinos and as the UK Digital business. Each CGU is assessed for indicators of impairment. An assessment is performed where there is an indicator of impairment and or reversal.

During the period the following indicators of impairment were identified:

- ◇ a sustained period of club underperformance;
- ◇ significant idle assets from Group restructuring and relocation; and
- ◇ a decline in the value attributed to the local economic environment.

During the period the following indicators of reversal were identified:

- ◇ a sustained period of club over performance;
- ◇ an increase in the value attributed to the local economic environment; and
- ◇ closure of a local competitor.

As a result of our testing the following impairment charges and reversals were recognised during the year:

	Exceptional (loss)/profit		Profit from continuing operations	Total
	Venue impairment charge	Group restructuring including relocation charge		
<b>PPE impairment charge</b>				
Grosvenor Venues	(5.1)	–	(0.2)	(5.3)
Mecca Venues	(0.3)	–	(0.3)	(0.6)
Enracha	(1.2)	–	–	(1.2)
Central	–	(0.5)	–	(0.5)
<b>Intangible impairment charge</b>	–			
Grosvenor Venues	(0.1)	–	–	(0.1)
<b>Total</b>	<b>(6.7)</b>	<b>(0.5)</b>	<b>(0.5)</b>	<b>(7.7)</b>
				Venue impairment reversal
<b>PPE impairment reversal</b>				
Grosvenor Venues				0.7
<b>Intangible impairment reversal</b>				
Enracha				1.8
<b>Total</b>				<b>2.5</b>

The discount rates applied were derived from the weighted average cost of capital and reflect the risks specific to each group of CGU's as follows;

CGUs within the following operating segments:	30 June 2017	30 June 2016
Grosvenor Venues	11%	10%
Mecca Venues	11%	10%
Enracha	12%	12%
UK Digital	11%	12%

The key assumptions and sensitivities in the impairment reviews are the same as outlined above for intangible assets.

The recoverable amount of each CGU, including the licence if applicable, has been determined based on the higher of fair value less costs of disposal and value in use. The value in use has been determined using cash flow projections from the Group's budget for 2017/18, the Group's strategic plan for the following two years and a growth rate of 2.0% (30 June 2016: 2.0%) thereafter. Both the Group's budget and strategic plan have been approved by the board of directors. Estimates of the fair value less costs of disposal are performed internally by an experienced surveyor supported by external estate agent advice or, where applicable, offers received. For a limited number of CGU's any failure to achieve the anticipated growth in future performance could result in further impairment charges being made.

Further details of exceptional impairment charges and reversals recognised during the current and prior periods are disclosed in note 4.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 13 Investments in subsidiaries

Company	As at 30 June 2017 £m	As at 30 June 2016 £m
<b>Cost</b>		
At start of year	1,518.7	1,517.6
Movements	(0.5)	1.1
Transfer of investment	(65.7)	–
<b>At end of year</b>	<b>1,452.5</b>	<b>1,518.7</b>
<b>Provision for impairment</b>		
At start of year	77.0	71.9
Impairment charge	–	5.1
Transfer of investment	(19.3)	–
<b>At end of year</b>	<b>57.7</b>	<b>77.0</b>
<b>Net book value at end of year</b>	<b>1,394.8</b>	<b>1,441.7</b>

In the current year, the Group undertook a project to review and simplify its organisational structure. As a result, Rank Digital Limited is no longer a direct investment of the Company and the associated cost of £65.7m and accumulated impairment of £19.3m have been disposed of at book value to a Group entity. Rank Digital Limited remains a wholly owned Group company. There was also a £0.5m reduction in cost from the movement in fair value of services recognised by subsidiary undertakings arising from equity-settled share awards granted as part of the LTIP reward by the Company.

In the prior year the Company recognised an impairment of £5.1m following a reduction in operating profit of a subsidiary undertaking.

A list of the significant investments in subsidiaries, including the name, country of incorporation, registered office and proportion of ownership interest is given in note 32.

## 14 Inventories

	Group	
	As at 30 June 2017 £m	As at 30 June 2016 £m
Raw materials	0.3	0.2
Finished goods	2.5	2.7
	<b>2.8</b>	<b>2.9</b>

There were no write downs of inventory in either year.

## 15 Other receivables

	Group	
	As at 30 June 2017 £m	As at 30 June 2016 £m
<b>Current</b>		
Other receivables	5.4	7.4
Less: provisions for impairment of other receivables	(0.1)	(0.1)
Other receivables – net	5.3	7.3
Prepayments	20.0	28.9
	25.3	36.2
<b>Non-current</b>		
Other receivables	2.8	2.9
Convertible loan note	3.7	3.6
	6.5	6.5

### Group

The directors consider that the carrying value of other receivables and convertible loan notes approximate to their fair value.

As at 30 June 2017, other receivables of £0.2m (30 June 2016: £nil) were past due but not impaired.

The creation and release of provisions for impaired receivables have been included in other operating costs in the income statement. Amounts charged to the provision for impairment are generally written off when there is no expectation of recovering additional cash.

The other classes within receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The Group's convertible loan note is due from its digital platform provider and at 30 June 2017, £3.5m has been loaned under the agreement with £0.2m of interest also outstanding. The Group has the option to convert the loan note into 17.5% of the issued share capital of its digital platform provider at any time prior to June 2018. If conversion does not take place, then the loan note is repayable in full in January 2019.

The digital platform provider is currently loss making and is reliant on continued funding from a related company and its shareholders. However, the Group considers that the market value of the convertible option, as evidenced by third party offers for all or part of the company, at least equates to the current loan value. The convertible option provides a mechanism whereby the Group can recover its loan through exercising the option and then selling the shares. The Group therefore believes no impairment of the loan principal and interest is required at this time. As the business is a private enterprise and a relatively new start up, attributing fair value to the convertible option requires significant judgement. The Group has concluded that, based on the limited available information, the loan note will be recoverable through conversion but there is no certainty of any incremental value attaching to the option at this time.



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 16 Trade and other payables

	Group		Company	
	As at 30 June 2017 £m	As at 30 June 2016 £m	As at 30 June 2017 £m	As at 30 June 2016 £m
<b>Current</b>				
Trade payables	11.6	24.9	–	–
Social security and other taxation	30.5	31.9	–	–
Other payables	86.8	82.5	1.7	1.8
<b>Trade and other payables – current</b>	<b>128.9</b>	<b>139.3</b>	<b>1.7</b>	<b>1.8</b>
<b>Non-current</b>				
Other payables	31.8	34.7	–	–
<b>Trade and other payables – non-current</b>	<b>31.8</b>	<b>34.7</b>	<b>–</b>	<b>–</b>

Other payables includes £2.9m current payables (30 June 2016: £2.9m) and £31.8m non-current payables (30 June 2016: £34.7m) in respect of above market rent property contracts acquired through business combinations.

## 17 Income tax

	Group	
	As at 30 June 2017 £m	As at 30 June 2016 £m
Income tax receivable	0.3	0.4
Income tax payable – Continuing operations	(10.7)	(9.0)
Income tax payable – Discontinued operations	(2.0)	(2.0)
Income tax payable	(12.7)	(11.0)
<b>Net income tax payable</b>	<b>(12.4)</b>	<b>(10.6)</b>

Income tax payable on discontinued operations relates to potential tax liabilities that are attributable to disposed entities with historic tax audits. The liability represents management's current estimate of the payments that will be required to settle the issues.

## 18 Financial assets and liabilities

### (a) Interest-bearing loans and borrowings

	Maturity	Group	
		As at 30 June 2017 £m	As at 30 June 2016 £m
<b>Current interest-bearing loans and borrowings</b>			
Bank overdrafts	On demand	2.5	3.1
Obligations under finance leases	Various	1.4	1.1
Term loans	February 2018	20.0	10.0
7.125% Yankee bonds	January 2018	10.5	–
<b>Other current loans</b>			
Accrued interest	July 2017	0.4	0.5
Unamortised facility fees	Various	(0.2)	(0.3)
<b>Total current interest-bearing loans and borrowings</b>		<b>34.6</b>	<b>14.4</b>
<b>Non-current interest-bearing loans and borrowings</b>			
Obligations under finance leases	Various	7.0	7.9
Term loans	2019	50.0	70.0
7.125% Yankee bonds	2018	–	10.1
<b>Other non-current loans</b>			
Unamortised facility fees	Various	–	(0.2)
<b>Total non-current interest-bearing loans and borrowings</b>		<b>57.0</b>	<b>87.8</b>
<b>Total interest-bearing loans and borrowings</b>		<b>91.6</b>	<b>102.2</b>
Sterling		81.1	92.1
US dollar		10.5	10.1
<b>Total interest-bearing loans and borrowings</b>		<b>91.6</b>	<b>102.2</b>

#### Bank overdrafts

Bank overdrafts are for short-term funding and are repayable on demand.

#### Yankee bonds

Interest on the Yankee bonds is payable half yearly in January and July at a rate of 7.125%.

#### Term loan facilities

Three and a half year facilities totalling £90.0m were signed on 29 September 2015 and consist of three bi-lateral term loans. Interest is payable on a periodic basis depending on the loans drawn. The facilities carry floating rates of interest which are LIBOR dependent. £10.0m was repaid in the period and the total drawn term loans at 30 June 2017 was £70.0m. (30 June 2016: £80.0m).

#### Revolving credit facilities

Five year facilities were signed on 29 September 2015 consisting three multi-currency revolving credit bi-lateral facilities totalling £90.0m. Interest is payable on a periodic basis depending on the loan drawn. The facilities carry floating rates of interest which are LIBOR dependent. There were no drawings on the multi-currency revolving credit facilities at 30 June 2017, providing the Group with £90.0m of undrawn committed facilities.

#### Covenants

The Group complied with all its covenants during the year.

#### Company

The Company did not hold any external interest-bearing loans or borrowings at 30 June 2017 (30 June 2016: £nil). The Company holds interest-bearing loans with other Group companies at 30 June 2017 of £861.5m (30 June 2016: £864.8m).

### (b) Hedging activities

The Group has not carried out any hedging activities in either period.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 18 Financial assets and liabilities continued

## (c) Fair values

The table below is a comparison by class of the carrying amounts and fair value of the Group and Company's financial instruments at 30 June 2017 and 30 June 2016.

Group	Carrying amount		Fair value	
	As at 30 June 2017 £m	As at 30 June 2016 £m	As at 30 June 2017 £m	As at 30 June 2016 £m
<b>Financial assets:</b>				
<b>Loans and receivables</b>				
Other receivables	4.1	5.4	4.1	5.4
Convertible loan note	3.7	3.6	3.7	3.6
Cash and short-term deposits	79.0	61.0	79.0	61.0
<b>Total</b>	<b>86.8</b>	<b>70.0</b>	<b>86.8</b>	<b>70.0</b>
<b>Financial liabilities:</b>				
<b>Other financial liabilities</b>				
Interest-bearing loans and borrowings				
Obligations under finance leases	8.4	9.0	8.4	9.0
Floating rate borrowings	70.0	80.0	70.0	80.0
Fixed rate borrowings	10.5	10.1	10.7	11.0
Bank overdrafts	2.5	3.1	2.5	3.1
Other	0.1	0.5	0.1	0.5
Trade and other payables	80.3	89.3	80.3	89.3
Property leases	24.6	44.5	24.6	44.5
<b>Total</b>	<b>196.4</b>	<b>236.5</b>	<b>196.6</b>	<b>237.4</b>
Company	Carrying amount		Fair value	
	As at 30 June 2017 £m	As at 30 June 2016 £m	As at 30 June 2017 £m	As at 30 June 2016 £m
<b>Financial assets:</b>				
<b>Loans and receivables</b>				
Cash and short-term deposits	0.4	0.2	0.4	0.2
<b>Total</b>	<b>0.4</b>	<b>0.2</b>	<b>0.4</b>	<b>0.2</b>
<b>Financial liabilities:</b>				
<b>Other financial liabilities</b>				
Trade and other payables	1.7	1.8	1.7	1.8
Financial guarantee contracts	0.9	1.7	0.9	1.7
Amounts owed to subsidiary undertakings	861.5	864.8	861.5	864.8
<b>Total</b>	<b>864.1</b>	<b>868.3</b>	<b>864.1</b>	<b>868.3</b>

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- ◇ cash and short-term deposits, other receivables, bank overdrafts and other financial liabilities approximate to their carrying amounts, largely due to the short-term maturities of these instruments;
- ◇ the fair value of fixed rate borrowings is based on price quotations at the reporting date;
- ◇ the fair value of floating rate borrowings and obligations under finance leases approximates to their carrying amounts; and
- ◇ the fair value of onerous property leases to approximate their carrying amount as they are discounted at current rates.

## 19 Financial risk management objectives and policies

### Financial risk factors

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group has other receivables, and cash and short-term deposits that derive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk.

The Group's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group's senior management oversees the management of these risks. The finance committee is supported by the Group's senior management, which advises on financial risks and the appropriate financial risk governance framework for the Group. The finance committee provides assurance that the Group's financial risk-taking activities are governed by appropriate policies and procedures and the financial risks are identified, measured and managed in accordance with Group policies and risk appetite.

The board of directors reviews and agrees policies for managing each of these risks, which are summarised below.

### (a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial instruments affected by market risk include loans and borrowings and deposits.

The sensitivity analyses in the following sections relate to the positions at 30 June 2017 and 30 June 2016.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating rates of the debt and the proportion of financial instruments in foreign currencies are all constant.

#### (i) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a different currency from the Group's functional currency) and the Group's net investments in foreign subsidiaries.

Group policy is not to hedge foreign currency risk.

#### Foreign currency sensitivity

The following table demonstrates the sensitivity of a possible change in the US dollar and euro, with all other variables held constant, to the Group's profit before tax and the Group's equity. The Group's exposure to foreign currency changes for all other currencies is not material.

	Effect on profit before tax		Effect on equity	
	As at 30 June 2017 £m	As at 30 June 2016 £m	As at 30 June 2017 £m	As at 30 June 2016 £m
Change in foreign exchange rates:				
+10.0% US\$	1.0	0.9	–	–
-10.0% US\$	(1.2)	(1.1)	–	–
+10.0% euro	(0.1)	–	(3.9)	(2.7)
-10.0% euro	0.1	–	3.9	2.7

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 19 Financial risk management objectives and policies continued

**(ii) Cash flow and fair value interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

Historically the Group had managed its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. Due to the current economic climate the Group has exercised its right to operate outside the Group policy of maintaining between 40% and 60% of its borrowings at fixed rates of interest. At 30 June 2017, 21% of the Group's borrowings were at a fixed rate of interest (30 June 2016: 19%).

**(iii) Interest rate sensitivity**

The table below demonstrates the sensitivity to a possible change in interest rates on income and equity for the year when this movement is applied to the carrying value of loans, borrowings, cash and short-term deposits.

	Effect on profit before tax	
	As at 30 June 2017 £m	As at 30 June 2016 £m
Sterling:		
100 basis point increase	(0.4)	(0.6)
200 basis point increase	(0.8)	(1.2)

There was no impact on equity in either year as a consequence of loan arrangements.

Due to current low interest rates, any further decline would not have a material impact on income and equity for the year. As such, sensitivity to a decrease in interest rates has not been presented.

The Group did not enter into any fixed-to-floating or floating-to-fixed interest rate swaps in either year.

**(b) Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for other receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

**Financial instruments and cash deposits**

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the finance director, and may be updated throughout the year subject to the approval of the Group's finance committee. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

The credit worthiness of each counterparty is checked against independent credit ratings on at least a weekly basis, with a minimum rating of 'BB' required. The Group predominantly invests with its lending banks when appropriate.

Sales to retail customers are settled in cash or using major credit and debit cards and therefore the exposure to credit risk is not considered significant.

No credit limits were exceeded during the reporting period and management does not expect any material losses from non-performance of its counterparties.

**(c) Liquidity risk**

Liquidity risk is the risk that the Group will not have sufficient funds to meet its liabilities. Cash forecasts identifying the liquidity requirements of the Group are produced three times a year. The cash forecasts are sensitivity tested for different scenarios and are reviewed regularly. Forecast financial headroom and debt covenant compliance is reviewed monthly during the month-end process to ensure sufficient financial headroom exists for at least a 12 month period.

Due to the dynamic nature of the underlying businesses, Group treasury aims to maintain flexibility in funding by keeping committed credit lines available. A three-year strategic forecast is prepared annually to facilitate planning for future financing needs. Management actively manages the Group's financing requirements and the range of maturities on its debt.

The Group's core debt facilities are the £90.0m (30 June 2016: £90.0m) bank facility comprising three bi-lateral bank facilities which expire in September 2020, and the £70.0m (30 June 2016: £80.0m) bank facility comprising three bi-lateral bank facilities which expire in April 2019. The Group proactively manages its relationships with its lending group.

The funding policy of the Group is to maintain, as far as practicable, a broad portfolio of debt diversified by source and maturity, and to maintain committed facilities sufficient to cover seasonal peak anticipated borrowing requirements.



The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	On demand £m	Less than 12 months £m	1 to 2 years £m	2 to 5 years £m	Greater than 5 years £m	Total £m
<b>At 30 June 2017</b>						
Interest-bearing loans and borrowings <sup>1</sup>	2.5	33.9	52.2	4.3	2.4	95.3
Trade and other payables	–	80.3	–	–	–	80.3
Property leases	–	4.9	2.7	7.6	13.6	28.8
	2.5	119.1	54.9	11.9	16.0	204.4
<b>At 30 June 2016</b>						
Interest-bearing loans and borrowings <sup>1</sup>	3.1	12.9	22.7	64.2	3.4	106.3
Trade and other payables	–	89.3	–	–	–	89.3
Property leases	–	7.2	4.5	11.0	36.5	59.2
	3.1	109.4	27.2	75.2	39.9	254.8

<sup>1</sup> The bank facility interest payments were based on current LIBOR as at the reporting date.

Interest payments on the interest-bearing loans and borrowings have been projected until the instruments mature.

### Capital management

As a result of the difficult conditions that developed in the global capital markets in recent years, the Group's objectives when managing capital have been to ensure continuing access to existing debt facilities and to manage the borrowing cost of those facilities in order to minimise the Group's interest charge.

Consistent with others in the gaming industry, the Group monitors capital on the basis of leverage ratio. The ratio is calculated as net debt divided by EBITDA. Net debt is calculated as total borrowings (including loans and borrowings as shown in the consolidated balance sheet) less cash and short-term deposits, accrued interest and unamortised facility fees. EBITDA is calculated as operating profit before exceptional items, depreciation and amortisation from continuing operations.

The leverage ratios at 30 June 2017 and 30 June 2016 were as follows:

	As at 30 June 2017 £m	As at 30 June 2016 £m
Total loans and borrowings (note 18)	91.6	102.2
Less: Cash and short-term deposits	(79.0)	(61.0)
Less: Accrued interest	(0.4)	(0.5)
Add: Unamortised facility fees	0.2	0.5
Net debt	12.4	41.2
Continuing operations		
Operating profit before exceptionals	83.5	82.4
Add: Depreciation and amortisation	45.3	45.8
EBITDA	128.8	128.2
Leverage ratio	0.1	0.3

Taking into consideration both the Group's capital investment requirements and the stability of the wider economic environment, the Group considers its progressive dividend policy to be appropriate.

### Collateral

The Group did not pledge or hold any collateral at 30 June 2017 (30 June 2016: £nil).

### Company

The maximum exposure to credit risk at the reporting date is the fair value of its Cash and short-term deposits of £0.4m (30 June 2016: £0.2m).

The Company does not have any other significant exposure to financial risks.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 20 Deferred tax

The analysis of deferred tax included in the financial statements at the end of the year is as follows:

	Group		Company	
	As at 30 June 2017 £m	As at 30 June 2016 £m	As at 30 June 2017 £m	As at 30 June 2016 £m
Deferred tax assets:				
Accelerated capital allowances	12.3	12.1	–	–
Tax losses carried forward	0.1	1.3	–	–
Business combinations – property lease fair value adjustments	4.3	4.8	–	–
Other UK temporary differences	1.1	1.0	–	–
<b>Deferred tax assets</b>	<b>17.8</b>	<b>19.2</b>	<b>–</b>	<b>–</b>
Deferred tax liabilities:				
Other overseas temporary differences	(2.4)	(1.8)	–	–
Business combinations – non-qualifying properties	(0.5)	(0.6)	–	–
Other UK temporary differences	–	–	–	(0.1)
Temporary differences on UK casino licences	(34.7)	(36.5)	–	–
<b>Deferred tax liabilities</b>	<b>(37.6)</b>	<b>(38.9)</b>	<b>–</b>	<b>(0.1)</b>
<b>Net deferred tax liability</b>	<b>(19.8)</b>	<b>(19.7)</b>	<b>–</b>	<b>(0.1)</b>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and current tax liabilities and it is the intention to settle the balances on a net basis. Deferred tax assets and liabilities of £17.7m (30 June 2016: £17.9m) have been offset and disclosed on the balance sheet as follows:

	Group	
	As at 30 June 2017 £m	As at 30 June 2016 £m
Deferred tax assets	0.1	1.3
Deferred tax liabilities	(19.9)	(21.0)
<b>Net deferred tax liability</b>	<b>(19.8)</b>	<b>(19.7)</b>

The deferred tax assets recognised are recoverable against future taxable profits that the directors consider more likely than not to occur on the basis of management forecasts.

The Group has overseas tax losses of £nil (30 June 2016: £3.5m) that are carried forward for offset against suitable future taxable profits. The expiry of the losses as at 30 June 2016 is as follows:

	Group	
	As at 30 June 2017 £m	As at 30 June 2016 £m
No expiry date	–	3.5

The Group has UK capital losses carried forward of £784m (30 June 2016: £784m). These losses are available for offset against future UK chargeable gains. No deferred tax asset (30 June 2016: £nil) has been recognised in respect of these capital losses as no further utilisation is currently anticipated.

### Temporary differences associated with Group investments

There was no deferred tax liability recognised (30 June 2016: £nil) for taxes that would be payable on the unremitted earnings of certain subsidiaries. The Group has determined that any unremitted earnings that do not fall within the dividend exemption introduced in the Finance Act 2009 will not be distributed in the foreseeable future and the parent company does not foresee giving such consent at the balance sheet date.

The deferred tax included in the Group income statement is as follows:

	Group	
	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
<b>Deferred tax in the income statement</b>		
Accelerated capital allowances	0.2	(0.5)
Deferred tax movement on fair valued assets	0.1	0.1
Tax losses	(1.2)	(0.9)
Business combinations – property lease fair value adjustments	(0.5)	(0.3)
Temporary differences on UK casino licences	1.8	3.9
Other temporary differences	(0.7)	(1.1)
<b>Total deferred tax (charge) credit</b>	<b>(0.3)</b>	<b>1.2</b>
Continuing operations	(0.3)	1.2
Discontinued operations	–	–
<b>Total deferred tax (charge) credit</b>	<b>(0.3)</b>	<b>1.2</b>

The deferred tax movement on the balance sheet is as follows:

	Group		Company	
	30 June 2017 £m	30 June 2016 £m	30 June 2017 £m	30 June 2016 £m
As at start of year	(19.7)	(20.9)	(0.1)	0.1
Exchange adjustments	–	(0.1)	–	–
Disposal of overseas subsidiary	–	–	–	–
Deferred tax (charge) credit in the income statement	(0.3)	1.2	0.1	(0.2)
Deferred tax credit to other comprehensive income and equity	0.2	0.1	–	–
As at end of year	(19.8)	(19.7)	–	(0.1)

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 21 Provisions

Group	Property lease provisions £m	Disposal provisions £m	Restructuring provisions £m	Indirect tax provision £m	Total £m
At 1 July 2016	44.5	4.4	–	1.2	50.1
Unwinding of discount	0.8	–	–	–	0.8
Charge to the income statement – exceptional	1.2	–	4.0	–	5.2
Release to the income statement – exceptional	(14.6)	–	–	–	(14.6)
Utilised in year	(7.3)	(0.2)	(0.3)	–	(7.8)
<b>At 30 June 2017</b>	<b>24.6</b>	<b>4.2</b>	<b>3.7</b>	<b>1.2</b>	<b>33.7</b>
Current	4.9	0.3	3.6	1.2	10.0
Non-current	19.7	3.9	0.1	–	23.7
<b>Total</b>	<b>24.6</b>	<b>4.2</b>	<b>3.7</b>	<b>1.2</b>	<b>33.7</b>

Provisions have been made based on management's best estimate of the future cash flows, taking into account the risks associated with each obligation.

**Property lease provisions**

The Group is party to a number of leasehold property contracts. Provision has been made against those leases where the property or part of the property is now vacant and the unavoidable costs under the lease exceed the economic benefit expected to be derived from potential sub-letting arrangements. Provision has also been made against leases where impairment testing has indicated that, after recognising an impairment charge, the estimated discounted cash flows derived from the property and its associated operations are insufficient to cover the unavoidable lease costs and the lease is therefore deemed onerous. These leases have a weighted average unexpired life of 11 years (30 June 2016: 22 years). Of the provision totalling £24.6m, it is estimated £15.2m will be utilised over periods ranging from one to five years, £2.7m will be utilised over periods ranging from five to 10 years; and the remaining £6.7m will be utilised over periods in excess of 10 years.

**Disposal provisions**

Provision has been made for legacy industrial disease and personal injury claims, deferred payments arising from the settlement of property lease obligations and other directly attributable costs arising as a consequence of the sale or closure of the businesses. The timing of any personal injury claims is uncertain and therefore these claims have been included in the maturity analysis based on management's best estimates. The disposal provisions held comprise the following:

	As at 30 June 2017 £m	As at 30 June 2016 £m
Legacy industrial disease and personal injury claims	4.0	4.0
Other	0.2	0.4
<b>Total disposal provisions</b>	<b>4.2</b>	<b>4.4</b>

**Restructuring provisions**

Provision has been made for exceptional restructuring and relocation costs. The balance includes £2.4m of redundancy costs and £1.3m of onerous property costs. Further details can be found in note 4.

**Indirect tax provision**

The indirect tax provision relates to the Group's VAT claim on amusement machines. The balance of £1.2m represents the directors' best estimate of the outflow likely to arise.

**Company**

Provision has been made for legacy industrial disease and personal injury claims. The timing of any personal injury claims is uncertain and therefore these claims have been included in the maturity analysis based on management's best estimates. The disposal provisions held comprise the following:

	As at 30 June 2017 £m	As at 30 June 2016 £m
Legacy industrial disease and personal injury claims	1.2	–
Other	0.1	–
<b>Disposal provisions</b>	<b>1.3</b>	<b>–</b>
Current	0.3	–
Non-current	1.0	–
<b>Total</b>	<b>1.3</b>	<b>–</b>

## 22 Share capital

	As at 30 June 2017		As at 30 June 2016	
	Number m	Nominal value £m	Number m	Nominal value £m
Authorised ordinary shares of 13 8/9p each	1,296.0	180.0	1,296.0	180.0
	As at 30 June 2017		As at 30 June 2016	
	Number m	Nominal value £m	Number m	Nominal value £m
As at 30 June 2016 and 30 June 2017 – issued and fully paid	390.7	54.2	390.7	54.2

## 23 Cash generated from operations

Reconciliation of operating profit to cash generated from continuing operations:

	Group		Company	
	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
<b>Continuing operations</b>				
Operating profit (loss)	84.5	91.7	(0.4)	(5.7)
Exceptional items	(1.0)	(9.3)	1.4	5.1
Operating profit (loss) before exceptional items	83.5	82.4	1.0	(0.6)
Depreciation and amortisation	45.3	45.8	–	–
Share-based payments	(0.7)	1.9	(0.3)	0.7
Loss on disposal of property, plant and equipment	0.9	0.5	–	–
Impairment of property, plant and equipment	0.5	0.5	–	–
Decrease (increase) in inventories	0.1	(0.1)	–	–
Decrease (increase) in other receivables	11.0	(5.9)	–	–
Decrease in trade and other payables	(12.2)	(8.7)	(0.5)	(0.1)
	128.4	116.4	0.2	–
Cash utilisation of provisions	(7.8)	(6.2)	(0.1)	–
Cash payments in respect of exceptional items	(4.3)	–	–	–
<b>Cash generated from continuing operations</b>	<b>116.3</b>	<b>110.2</b>	<b>0.1</b>	<b>–</b>



## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 24 Cash flows from disposal of subsidiaries

During the year ended 30 June 2016, the Group disposed of a subsidiary undertaking which incurred a net cash outflow of £0.2m. This has been disclosed as a discontinued operation as it represents a legacy self insurance company for discontinued businesses, and is part of a plan to exit from such legacy businesses.

There were no such disposals in the current year.

## 25 Cash and short-term deposits

	Group	
	As at 30 June 2017 £m	As at 30 June 2016 £m
Cash at bank and on hand	51.5	42.5
Short-term deposits	27.5	18.5
<b>Total</b>	<b>79.0</b>	<b>61.0</b>

The analysis of cash and short-term deposits by currency is as follows:

	Group	
	As at 30 June 2017 £m	As at 30 June 2016 £m
Sterling	72.7	57.3
Euro	6.3	3.7
<b>Total</b>	<b>79.0</b>	<b>61.0</b>

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

For the purpose of the statements of cash flow, cash and cash equivalents comprise the following:

	Group	
	As at 30 June 2017 £m	As at 30 June 2016 £m
Cash at bank and on hand	51.5	42.5
Short-term deposits	27.5	18.5
	79.0	61.0
Bank overdrafts	(2.5)	(3.1)
<b>Total</b>	<b>76.5</b>	<b>57.9</b>

## Company

At 30 June 2017 the Company had cash and short-term deposits of £0.4m (30 June 2016: £0.2m).

## 26 Employees and directors

### (a) Employee benefit expense for the Group during the year

	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
Wages and salaries	197.4	192.3
Social security costs	19.8	18.3
Pension costs	4.7	4.6
Share-based payments	(0.8)	1.9
	221.1	217.1

The Company has one employee (year ended 30 June 2016: one employee), remuneration for whom is paid by a subsidiary undertaking.

### (b) Average monthly number of employees

	Full-time Year ended 30 June 2017	Part-time Year ended 30 June 2017	Total Year ended 30 June 2017	Full-time Year ended 30 June 2016	Part-time Year ended 30 June 2016	Total Year ended 30 June 2016
Grosvenor Venues	4,312	1,939	6,251	4,336	2,017	6,353
Mecca Venues	666	2,409	3,075	710	2,520	3,230
UK Digital	163	12	175	128	11	139
Enracha	446	78	524	483	44	527
Central Costs	325	28	353	292	26	318
	5,912	4,466	10,378	5,949	4,618	10,567

### (c) Key management compensation

	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
Salaries and short-term employee benefits (including social security costs)	4.6	5.0
Termination benefits	0.4	0.3
Post-employment benefits	0.3	0.2
Share-based payments	(0.7)	1.9
	4.6	7.4

Included in key management compensation are bonuses of £0.9m in respect of the current year that will be paid in 2017/18 (year ended 30 June 2016: £1.4m).

Key management is defined as the directors of the Group and the management team, details of which are set out on page 50. Further details of emoluments received by directors are included in the remuneration report.

### (d) Directors' interests

The directors' interests in shares of the Company, including conditional awards under the Long-Term Incentive Plan, are detailed in the remuneration report.

### (e) Total emoluments of the directors of The Rank Group Plc

	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
Salaries, fees and benefits	1.9	2.0
Post-employment benefits	0.1	0.1
	2.0	2.1

No director accrued benefits under defined benefit pension schemes in either year. No director (year ended 30 June 2016: none) is a member of the Group's defined contribution pension plan at the year end. Further details of emoluments received by directors, including the aggregate amount of gains made by directors upon the vesting of conditional share awards, are disclosed in the remuneration report on page 77.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 27 Share-based payments

During the year ended 30 June 2017, the Company operated an equity settled Long-Term Incentive Plan ('LTIP'). Further details of the LTIP are included in the remuneration report on page 72. The LTIP is an equity settled scheme and details of the movements in the number of shares are shown below:

	As at 30 June 2017 £m	As at 30 June 2016 £m
Outstanding at start of the year	4,434,222	4,856,173
Granted	–	252,970
Forfeited	(278,408)	(674,921)
<b>Outstanding at end of the year</b>	<b>4,155,814</b>	<b>4,434,222</b>

	As at 30 June 2017 £m	As at 30 June 2016 £m
Weighted average remaining life	1.2 years	2.2 years
Weighted average fair value for shares granted during the year	–	235p

The LTIP awards vest in three tranches; 45% in December 2017, 30% in December 2018 and 25% in December 2019. All LTIP awards have £nil exercise price.

The fair value of the LTIP awards granted in the prior year was based on the market value of the share award at grant date less the expected value of dividends forgone.

To the extent that grants are subject to non-market based performance conditions, the expense recognised is based on expectations of these conditions being met, which are reassessed at each balance sheet date. The current scheme's non-market performance conditions are subject to results as at 30 June 2017 as well as future service. Based on the performance conditions assessed at 30 June 2017, 1.6m of the 4.1m outstanding shares at year end is expected to vest provided the employees meet the service requirements. The directors' remuneration report provides further details on the vesting conditions.

The Group recognised a £0.8m credit (year ended 30 June 2016: £1.9m charge) in operating profit from accounting for share-based payments and related national insurance in accordance with IFRS 2.

National Insurance contributions are payable in respect of some share-based payments. These contributions are payable on the date of exercise based on the intrinsic value of the share-based payments, and as such are treated as cash-settled awards. Of the credit in the year, £0.1m (30 June 2016: £0.2m charge) is in respect of such cash-settled awards. The Group has recorded liabilities at 30 June 2017 of £0.3m (30 June 2016: £0.4m).

## 28 Retirement benefits

## Defined contribution scheme

The Group operates the Rank Group Stakeholder Pension Plan ('the Plan') which is externally funded and the Plan's assets are held separately from Group assets. During the year ended 30 June 2017, the Group contributed a total of £4.7m (year ended 30 June 2016: £4.3m) to the Plan. There were no significant contributions outstanding at the balance sheet date in either year.

## Other pension commitment

The Group has an unfunded pension commitment relating to three former executives of the Group. At 30 June 2017, the Group's commitment was £4.2m (30 June 2016: £3.7m). The Group paid £0.2m (year ended 30 June 2016: £0.2m) in pension payments during the year. The actuarial loss arising on the commitment, resulting from the changes in assumptions outlined below in the year, was £0.7m (year ended 30 June 2016: £0.1m) before taxation and £0.6m after taxation (year ended 30 June 2016: £0.1m).

	30 June 2017 % p.a.	30 June 2016 % p.a.
Discount rate	2.6	2.8
Pension increases	3.3	2.9

The obligation has been calculated using the S2 mortality tables with a 1.5% per annum improvement in life expectancy.

## 29 Commitments

### Group

#### *Operating lease commitments – Group as lessee*

The Group has entered into commercial leases on certain properties, plant and items of machinery. These leases have durations of from under one year to 23 years (30 June 2016: one to 49 years).

Future minimum rentals payable under non-cancellable operating leases are as follows:

	As at 30 June 2017 £m	As at 30 June 2016 £m
Not later than one year	48.0	48.0
After one year but not more than five years	176.0	184.6
After five years	140.7	194.0
	364.7	426.6
	As at 30 June 2017 £m	As at 30 June 2016 £m
Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases	20.5	19.8

#### *Finance lease commitments – Group as lessee*

The minimum lease payments under finance leases, together with the present value of the net minimum lease payments, are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2017 £m	30 June 2016 £m	30 June 2017 £m	30 June 2016 £m
Not later than one year	1.7	1.7	1.4	1.1
After one year but not more than five years	6.4	6.2	5.1	4.5
More than five years	2.4	4.8	1.9	3.4
	10.5	12.7	8.4	9.0
Less future finance charges	(2.1)	(3.7)		
Present value of minimum lease payments	8.4	9.0		
			As at 30 June 2017 £m	As at 30 June 2016 £m
Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases			–	0.1

### Capital commitments

At 30 June 2017, the Group has contracts placed for future capital expenditure of £3.3m (30 June 2016: £1.8m).

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 30 Contingent liabilities

### Group

#### Property leases

Concurrent to the £211.0m sale and leaseback in 2006, the Group transferred the rights and obligations but not the legal titles of 44 property leases to a third party. The Group remains potentially liable in the event of default by the third party. Should default occur then the Group would have recourse to two guarantors. It is understood that, of the original 44 leases transferred, eight of these have not expired or been surrendered. These eight leases have durations of between 21 months and 96 years and a current annual rental obligation (net of sub-let income) of approximately £0.8m.

During 2014, the Group became aware of certain information in respect of a change in the financial position of the third party and one of the guarantors. However, the Group has not to date been notified of any default, or intention to default, in respect of the transferred leases.

#### Stamp duty

In the prior year, the Group disclosed that it had received from HMRC a determination in respect of the amount of stamp duty payable on certain transactions undertaken by Gala Casino 1 Limited (now Grosvenor Casinos (GC) Limited) before its acquisition by the Group on 12 May 2013 from Gala Coral. The Group estimated the maximum additional stamp duty that could be due, if HMRC were successful and Gala Coral were to default on terms of the Sale and Purchase Agreement, to be £7.2m plus interest. During the period Gala Coral have made a payment on account to HMRC in respect of the determination and the Group has assigned the right to any potential refund back to Gala Coral. As payment has been made by Gala Coral, there is no longer a risk of default and therefore this risk is no longer considered a contingent liability.

### Company

At 30 June 2017, the Company has made guarantees to subsidiary undertakings of £81.6m (30 June 2016: £91.2m).

## 31 Related party transactions

### Group

Details of compensation paid to key management are disclosed in note 26.

#### Entities with significant influence over the Group

Guoco Group Limited (Guoco), a company incorporated in Bermuda, and listed on the Hong Kong stock exchange, has a controlling interest in the Rank Group Plc. The ultimate parent undertaking of Guoco is Hong Leong Company (Malaysia) Berhad (Hong Leong) which is incorporated in Malaysia. At 30 June 2017, entities controlled by Hong Leong owned 56.2% of the Company's shares, including 52.0% through Guoco's wholly-owned subsidiary, Rank Assets Limited, the Company's immediate parent undertaking.

### Company

The following transactions with subsidiaries occurred in the year:

	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m
Interest payable to subsidiary undertaking	(20.8)	(21.1)

During the year, Rank Group Finance Plc, a subsidiary of the Company, provided additional cash to the Company of £26.1m (year ended 30 June 2016: £22.7m).



## 32 Subsidiaries

The Company owns directly or indirectly 100% of the ordinary share capital and voting rights of the following companies:

Name	Country of incorporation	Principal activities	Registered office address
Grosvenor Casinos Limited	England and Wales	Casinos	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Grosvenor Casinos (GC) Limited	England and Wales	Casinos	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
The Gaming Group Limited	England and Wales	Casinos	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Mecca Bingo Limited	England and Wales	Social and bingo clubs	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Leisure Limited	England and Wales	Adult gaming centres in Mecca and Grosvenor Casinos venues	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Digital Limited	England and Wales	Support services to interactive gaming	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Group Finance Plc <sup>1</sup>	England and Wales	Funding operations for the Group	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Digital Gaming (Alderney) Limited	Alderney	Interactive gaming	La Corvée House, La Corvée, Alderney, Channel Islands GY9 3TQ
Rank Digital Services (Gibraltar) Limited	Gibraltar	Support services to interactive gaming	124 Irish Town, Gibraltar, GX11 1AA
Rank Digital España SA (Previously Rank Malta Operations p.l.c.)	Spain	Interactive gaming	Calle Balmes 268-270 1º, 08006, Barcelona, Spain
Conticin SL	Spain	Social and bingo clubs	Calle Balmes 268-270 1º, 08006, Barcelona, Spain
Gotfor SA	Spain	Social and bingo clubs	Calle Balmes 268-270 1º, 08006, Barcelona, Spain
Rank Cataluña SA	Spain	Social and bingo clubs	Calle Balmes 268-270 1º, 08006, Barcelona, Spain
Rank Centro SA	Spain	Social and bingo clubs	Calle Balmes 268-270 1º, 08006, Barcelona, Spain
Top Rank Andalucía SA	Spain	Social and bingo clubs	Conde Robledo 1, 14008, Cordoba, Spain
Verdiales SA	Spain	Social and bingo clubs	Sala Andalucía, Ronda, Capuchinos 19, 41008, Sevilla, Spain
Blankenberge Casino-Kursaal NV	Belgium	Casino	Zeedijk (Casino), B-84030 Middelkerke, Belgium
Middelkerke Casino-Kursaal NV	Belgium	Casino	Zeedijk (Casino), B-84030 Middelkerke, Belgium
Rank Holding España SA	Spain	Intermediary holding company	Calle Balmes 268-270 1º, 08006, Barcelona, Spain
Rank Nemo (Twenty-Five) Limited <sup>1</sup>	England and Wales	Intermediary holding company	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Leisure Holdings Limited	England and Wales	Intermediary holding company and corporate activities	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Gaming Group Limited	England and Wales	Intermediary holding company for UK casino entities	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Group Gaming Division Limited	England and Wales	Intermediary holding company for UK bingo entities and provision of shared services	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Overseas Holdings Limited	England and Wales	Intermediary holding company for overseas entities	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank (U.K.) Holdings Limited	England and Wales	Intermediary holding company for legacy entities	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Digital Holdings Limited	England and Wales	Intermediary holding company for digital entities	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Associated Leisure (Amusement Machines) Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
DGMS Blackburn Holdings Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Grosvenor Victoria Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Leisure Holidays Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Luda Bingo Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Linkco Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
MRC Developments Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Pleaurama Properties Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Pleaurama Property Investments Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank (DMS) Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank (FF) Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Group Holdings Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Holidays Division Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

## 32 Subsidiaries continued

Name	Country of incorporation	Principal activities	Registered office address
Rank Hotels (Management) Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Interactive Development Limited <sup>2</sup>	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Interactive Gaming Limited <sup>2</sup>	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Leisure Machine Services Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Nemo (DGMS) Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Nemo (DMS) Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Nemo (DPL) Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Nemo (HGY) Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Nemo (RC) Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
The Rank Organisation Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Overseas Finance Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Precision Industries Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Radio International Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Seasonal Amusements Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Speciality Catering Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
RO Nominees Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
RPI Overseas Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Wardley Centre Bingo Limited	England and Wales	Dormant	TOR, Saint-Cloud Way, Maidenhead SL6 8BN
Rank Malta Holdings Limited <sup>3</sup>	Malta	Dormant	Vincenti Buildings (Suite 871), 14/19 Strait Street, Valletta, VLT 1432, Malta
Associated Leisure France SARL	France	Dormant	4 Rue Joseph Monier, 92859 Rueil Malmaison, Cades, France
Associated Leisure France Properties SCI	France	Dormant	Zi Sud, 12 Rue des Petits Champs, 35400, St Malo, France
Kingston Plantation Condominium Management Company	U.S.A.	Dormant	CT Corporation System, 75 Beattie Place, Greenville, SC 29601, USA
Rank America Inc.	U.S.A.	Dormant	The Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801, USA
Rank Development Inc.	U.S.A.	Dormant	The Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801, USA
Rank New Jersey Inc. <sup>1</sup>	U.S.A.	Dormant	The Corporation Trust Company, 820 Bear Tavern Road, West Trenton, NJ 08628, USA

<sup>1</sup> Directly held by the Company.

<sup>2</sup> Dissolved 11 July 2017 (Post year end).

<sup>3</sup> In liquidation.

The principal activities are carried out in the country of incorporation as indicated above. All subsidiary undertakings have a 30 June year end.

## FIVE YEAR REVIEW

	Year ended 30 June 2017 £m	Year ended 30 June 2016 £m	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m	Year ended 30 June 2013 £m
<b>Continuing operations</b>					
Revenue before adjustment for customer incentives	755.1	753.0	738.3	707.7	625.0
Customer incentives	(47.9)	(44.5)	(37.6)	(29.2)	(28.8)
Revenue	707.2	708.5	700.7	678.5	596.2
Operating profit before exceptional items	83.5	82.4	84.0	72.4	69.9
Exceptional items credited (charged) against operating profit	1.0	9.3	2.1	(46.5)	(17.7)
Group operating profit	84.5	91.7	86.1	25.9	52.2
Total net financing charge	(4.8)	(6.2)	(11.6)	(11.5)	(9.5)
Profit before taxation	79.7	85.5	74.5	14.4	42.7
Taxation	(16.8)	(14.4)	(15.5)	3.0	(13.8)
Profit after taxation from continuing operations	62.9	71.1	59.0	17.4	28.9
Discontinued operations	–	3.6	15.8	2.8	(1.9)
Profit for the year	62.9	74.7	74.8	20.2	27.0
Adjusted earnings per share – basic	16.0p	15.4p	14.6p	12.4p	12.4p
Basic earnings per ordinary share	16.1p	19.1p	19.1p	5.2p	6.9p
Basic earnings per ordinary share before exceptional items	16.2p	15.7p	14.6p	13.5p	10.9p
Total ordinary dividend (including proposed) per ordinary share	7.30p	6.50p	5.60p	4.50p	4.10p
<b>Group funds employed</b>					
Intangible assets and property, plant and equipment	599.4	606.3	599.1	607.7	620.3
Provisions	(33.7)	(50.1)	(53.6)	(59.5)	(68.3)
Other net liabilities	(162.7)	(162.4)	(198.2)	(168.9)	(206.0)
<b>Total funds employed at year-end</b>	<b>403.0</b>	<b>393.8</b>	<b>347.3</b>	<b>379.3</b>	<b>346.0</b>
<b>Financed by</b>					
Ordinary share capital and reserves	390.6	352.6	294.4	242.3	241.9
Net debt	12.4	41.2	52.9	137.0	104.1
	403.0	393.8	347.3	379.3	346.0
<b>Average number of employees (000s)</b>	<b>10.4</b>	<b>10.6</b>	<b>10.7</b>	<b>10.9</b>	<b>9.6</b>

## SHAREHOLDER INFORMATION

### 2017/18 financial calendar

22 September 2017	Record date for 2016/17 final dividend
19 October 2017	Annual general meeting and interim management statement
31 October 2017	Payment date for 2016/17 final dividend
1 February 2018	Interim results announcement

### Registrar

All administrative enquiries relating to shares should, in the first instance, be directed to the Company's registrar (quoting reference number 1235) and clearly state the registered shareholder's name and address. Please write to The Rank Group Plc Registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (Tel: from the UK 0371 384 2098 and from outside the UK +44 121 415 7047).

There is a text phone available on 0371 384 2255 for shareholders with hearing difficulties.

### Shareview

The Shareview portfolio service from the Company's registrar gives shareholders more control of their Rank shares and other investments including:

- ♦ direct access to data held for them on the share register including recent share movements and dividend details;
- ♦ a recent valuation of their portfolio; and
- ♦ a range of information and practical help for shareholders including how they can elect to receive communications electronically.

It is easy and free to set up a portfolio – shareholders will just need the shareholder reference printed on their proxy form or dividend stationery. Please visit the following website for more details: [www.shareview.co.uk](http://www.shareview.co.uk).

### Payment of dividends

The Company is no longer operating a dividend re-investment plan. Shareholders may find it more convenient to make arrangements to have dividends paid directly to their bank account. The advantages of this are that the dividend is credited to a shareholder's bank account on the payment date, there is no need to present cheques for payment and there is no risk of cheques being lost in the post.

To set up a dividend mandate or to change an existing mandate please contact Equiniti Limited, our registrar, whose contact details are above. Alternatively, shareholders who use Equiniti's Shareview can log on to [www.shareview.co.uk](http://www.shareview.co.uk) and follow the online instructions.

### Shareholder information

A wide range of information for shareholders and investors is available in the Investors area of the Rank Group website: [www.rank.com](http://www.rank.com).

### Frequently asked questions

We have a shareholder 'frequently asked questions' section on our website which provides answers to many questions that shareholders have: [www.rank.com/en/investors/shareholder-centre/faqs.html](http://www.rank.com/en/investors/shareholder-centre/faqs.html).

### Capital gains tax

For the purpose of calculating UK capital gains tax on a disposal of ordinary shares in the Company held since 31 March 1982 (including shares held in the predecessor company, The Rank Organisation Plc), the price of the Company's ordinary shares at that date was 190 pence per share. This price should be adjusted for the effects of the rights issue in January 1990, the enhanced share alternative in July 1993, the sub-division and consolidation of shares in March 1994, the enhanced scrip dividend in March 1998, and the 18 for 25 sub-division and share consolidation (aligned with the 65 pence special dividend payment) which took place in March 2007. More information regarding these adjustments is available on the [www.rank.com](http://www.rank.com) website.

### Shareholder security

We are aware that some of our shareholders have received unsolicited telephone calls concerning their Rank shares. These communications tend to be from overseas-based 'brokers' who offer a premium price for your Rank shares but ask you to make an upfront payment, typically in the form of an insurance bond. We recommend that before paying any money you:

- ♦ obtain the name of the person and firm contacting you;
- ♦ check the FCA register at [www.fca.org.uk/register/to](http://www.fca.org.uk/register/to) to ensure they are authorised;
- ♦ use the details on the FCA register to contact the firm;
- ♦ call the FCA consumer helpline on 0800 111 6768 if there are no contact details on the FCA register or you are told they are out of date; and
- ♦ search the FCA's list of unauthorised firms and individuals to avoid doing business with: [www.fca.org.uk/consumers/unauthorised-firms-individuals](http://www.fca.org.uk/consumers/unauthorised-firms-individuals).

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

Below please find the link to the FCA's website which gives information on scams and swindles which shareholders may find helpful: [www.fca.org.uk/consumers/scams](http://www.fca.org.uk/consumers/scams).

Further information on fraud can be found at [www.actionfraud.org.uk/](http://www.actionfraud.org.uk/)

Action Fraud's helpline is 0300 123 2040.

We recommend that you report any attempted share frauds to the authorities since providing information with regard to how the fraudsters have contacted and dealt with you will assist the authorities in understanding the fraudsters' way of operating so as to enable them to disrupt and prevent these activities and prosecute them.

#### **ShareGift**

Shareholders with a very small number of shares, the value of which may make it uneconomical to sell, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation.

Further information about ShareGift is available at [www.sharegift.org](http://www.sharegift.org) or by writing to:

ShareGift  
17 Carlton House Terrace  
London SW1Y 5AH

Tel: 020 7930 3737

**For any other information please contact the following at our registered office:**

**Frances Bingham**, company secretary

**Sarah Powell**, director of treasury and investor relations

#### **Registered office**

The Rank Group Plc,  
TOR, Saint-Cloud Way, Maidenhead SL6 8BN

Tel: 01628 504 000

The Rank Group Plc  
Registered in England and Wales N° 03140769



## GLOSSARY

### Financial terminology

#### **EBITDA**

Earnings before interest, tax, depreciation, amortisation and exceptional items

#### **Like-for-like**

Excludes club openings, closures and relocations, and changes to gaming taxation

#### **Operating margin**

Operating profit expressed as a percentage of revenue

#### **Revenue**

Income retained by Group after deductions for VAT and players' winnings

### KPI terminology

#### **Customer visits**

Individual customer visits to bingo clubs and casinos

#### **Customers**

Unique customers visiting a bingo club or casino or operating an online account in the 12-month period

#### **Cross-channel crossover**

Percentage of venues' customers who are also digital customers

#### **Spend per visit**

Revenue divided by customer visits

### Gaming industry terminology

#### **Adult gaming centre**

A licensed gaming machines arcade

#### **Alderney Gambling Control Commission**

The body responsible for the regulation of eGambling in the states of Alderney

#### **Gambling Commission**

The governing body for all sectors of gambling in Great Britain, with the exception of the National Lottery and spread betting

#### **Interval games**

Automated game of bingo played in a licensed club

#### **Mecca Max**

Portable hand-held electronic bingo terminal available in Mecca's venues

#### **Main stage bingo**

Traditional game of bingo played in a licensed club

#### **Digital gaming and betting**

Gambling services offered to customers via the internet and mobile phone

For more information, visit our website.

**WWW.RANK.COM**



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The Rank Group Plc

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Company registration number: 03140769